UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 000-24435

MICROSTRATEGY INCORPORATED
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

51-0323571
(I.R.S. Employer Identification Number)

1850 Towers Crescent Plaza, Tysons Corner, VA
(Address of Principal Executive Offices)

22182
(Zip Code)

(703) 848-8600
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on which Registered
Class A common stock, par value $0.001 per share	MSTR	The Nasdaq Global Select Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 19, 2020, the registrant had 7,252,964 and 2,014,025 shares of class A common stock and class B common stock outstanding, respectively.

MICROSTRATEGY INCORPORATED

FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

MICROSTRATEGY INCORPORATED
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	September 30, 2020 (unaudited)	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 52,653	$ 456,727
Restricted cash	1,231	1,089
Short-term investments	0	108,919
Accounts receivable, net	148,512	163,516
Prepaid expenses and other current assets	16,040	23,195
Total current assets	218,436	753,446
Digital assets	380,758	0
Property and equipment, net	45,473	50,154
Right-of-use assets	79,296	85,538
Deposits and other assets	15,405	8,024
Deferred tax assets, net	33,537	19,409
Total assets	$ 772,905	$ 916,571
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable, accrued expenses, and operating lease liabilities	$ 38,668	$ 33,919
Accrued compensation and employee benefits	44,177	48,792
Deferred revenue and advance payments	160,845	187,107
Total current liabilities	243,690	269,818
Deferred revenue and advance payments	11,657	4,344
Operating lease liabilities	95,591	103,424
Other long-term liabilities	32,651	30,400
Deferred tax liabilities	24	26
Total liabilities	383,613	408,012
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock undesignated, $0.001 par value; 5,000 shares authorized; no shares issued or outstanding	0	0
Class A common stock, $0.001 par value; 330,000 shares authorized; 15,937 shares issued and 7,253 shares outstanding, and 15,888 shares issued and 8,081 shares outstanding, respectively	16	16
Class B convertible common stock, $0.001 par value; 165,000 shares authorized; 2,014 shares issued and outstanding, and 2,035 shares issued and outstanding, respectively	2	2
Additional paid-in capital	604,974	593,583
Treasury stock, at cost; 8,684 shares and 7,807 shares, respectively	(782,104)	(658,880)
Accumulated other comprehensive loss	(6,900)	(9,651)
Retained earnings	573,304	583,489
Total stockholders' equity	389,292	508,559
Total liabilities and stockholders' equity	$ 772,905	$ 916,571

The accompanying notes are an integral part of these Consolidated Financial Statements.

MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended September 30, 2020 (unaudited)	Three Months Ended September 30, 2019 (unaudited)
Revenues:		
Product licenses	$ 29,573	$ 18,972
Subscription services	8,305	7,894
Total product licenses and subscription services	37,878	26,866
Product support	71,352	72,885
Other services	18,178	19,942
Total revenues	127,408	119,693
Cost of revenues:		
Product licenses	545	526
Subscription services	3,656	3,889
Total product licenses and subscription services	4,201	4,415
Product support	5,679	6,922
Other services	11,856	12,478
Total cost of revenues	21,736	23,815
Gross profit	105,672	95,878
Operating expenses:		
Sales and marketing	35,330	43,935
Research and development	26,638	27,457
General and administrative	19,733	19,900
Digital asset impairment losses	44,242	0
Total operating expenses	125,943	91,292
(Loss) income from operations	(20,271)	4,586
Interest income, net	209	2,941
Other (expense) income, net	(2,971)	1,882
(Loss) income before income taxes	(23,033)	9,409
Benefit from income taxes	(8,804)	(291)
Net (loss) income	$ (14,229)	$ 9,700
Basic (loss) earnings per share (1)	$ (1.48)	$ 0.95
Weighted average shares outstanding used in computing basic (loss) earnings per share	9,616	10,251
Diluted (loss) earnings per share (1)	$ (1.48)	$ 0.94
Weighted average shares outstanding used in computing diluted (loss) earnings per share	9,616	10,309

(1) Basic and fully diluted (loss) earnings per share for class A and class B common stock are the same.

The accompanying notes are an integral part of these Consolidated Financial Statements.

MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Nine Months Ended September 30,	
	2020	2019
	(unaudited)	(unaudited)
Revenues:		
Product licenses	$ 56,973	$ 57,384
Subscription services	24,294	22,142
Total product licenses and subscription services	81,267	79,526
Product support	212,548	217,313
Other services	55,601	55,957
Total revenues	349,416	352,796
Cost of revenues:		
Product licenses	1,729	1,597
Subscription services	11,512	10,976
Total product licenses and subscription services	13,241	12,573
Product support	19,234	21,710
Other services	37,795	41,055
Total cost of revenues	70,270	75,338
Gross profit	279,146	277,458
Operating expenses:		
Sales and marketing	109,799	140,968
Research and development	78,606	83,436
General and administrative	60,514	63,684
Digital asset impairment losses	44,242	0
Total operating expenses	293,161	288,088
Loss from operations	(14,015)	(10,630)
Interest income, net	2,627	8,520
Other (expense) income, net	(4,532)	30,717
(Loss) income before income taxes	(15,920)	28,607
(Benefit from) provision for income taxes	(5,735)	6,419
Net (loss) income	$ (10,185)	$ 22,188
Basic (loss) earnings per share (1)	$ (1.04)	$ 2.16
Weighted average shares outstanding used in computing basic (loss) earnings per share	9,777	10,273
Diluted (loss) earnings per share (1)	$ (1.04)	$ 2.15
Weighted average shares outstanding used in computing diluted (loss) earnings per share	9,777	10,336

(1) Basic and fully diluted (loss) earnings per share for class A and class B common stock are the same.

The accompanying notes are an integral part of these Consolidated Financial Statements.

MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(in thousands)

	Three Months Ended September 30,	
	2020	**2019**
	(unaudited)	(unaudited)
Net (loss) income	$ (14,229)	$ 9,700
Other comprehensive income (loss), net of applicable taxes:		
Foreign currency translation adjustment	2,612	(2,182)
Unrealized loss on short-term investments	(325)	(182)
Total other comprehensive income (loss)	2,287	(2,364)
Comprehensive (loss) income	$ (11,942)	$ 7,336

	Nine Months Ended September 30,	
	2020	**2019**
	(unaudited)	(unaudited)
Net (loss) income	$ (10,185)	$ 22,188
Other comprehensive income (loss), net of applicable taxes:		
Foreign currency translation adjustment	2,898	(1,922)
Unrealized (loss) gain on short-term investments	(147)	465
Total other comprehensive income (loss)	2,751	(1,457)
Comprehensive (loss) income	$ (7,434)	$ 20,731

The accompanying notes are an integral part of these Consolidated Financial Statements.

MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, unaudited)

		Class A Common Stock		Class B Convertible Common Stock		Additional Paid-in	Treasury Stock		Accumulated Other Comprehensive	Retained
	Total	Shares	Amount	Shares	Amount	Capital	Shares	Amount	Income (Loss)	Earnings
Balance at January 1, 2019	$ 529,731	15,837	$ 16	2,035	$ 2	$ 576,957	(7,285)	$ (586,161)	$ (10,217)	$ 549,134
Net loss	(7,906)	0	0	0	0	0	0	0	0	(7,906)
Other comprehensive income	253	0	0	0	0	0	0	0	253	0
Issuance of class A common stock under stock option plans	1,507	13	0	0	0	1,507	0	0	0	0
Purchases of treasury stock	(48,244)	0	0	0	0	0	(363)	(48,244)	0	0
Share-based compensation expense	2,965	0	0	0	0	2,965	0	0	0	0
Balance at March 31, 2019	$ 478,306	15,850	$ 16	2,035	$ 2	$ 581,429	(7,648)	$ (634,405)	$ (9,964)	$ 541,228
Net income	20,394	0	0	0	0	0	0	0	0	20,394
Other comprehensive income	654	0	0	0	0	0	0	0	654	0
Issuance of class A common stock under stock option plans	329	3	0	0	0	329	0	0	0	0
Share-based compensation expense	3,006	0	0	0	0	3,006	0	0	0	0
Balance at June 30, 2019	$ 502,689	15,853	$ 16	2,035	$ 2	$ 584,764	(7,648)	$ (634,405)	$ (9,310)	$ 561,622
Net income	9,700	0	0	0	0	0	0	0	0	9,700
Other comprehensive loss	(2,364)	0	0	0	0	0	0	0	(2,364)	0
Issuance of class A common stock under stock option plans	3,606	27	0	0	0	3,606	0	0	0	0
Share-based compensation expense	1,788	0	0	0	0	1,788	0	0	0	0
Balance at September 30, 2019	$ 515,419	15,880	$ 16	2,035	$ 2	$ 590,158	(7,648)	$ (634,405)	$ (11,674)	$ 571,322
Net income	12,167	0	0	0	0	0	0	0	0	12,167
Other comprehensive income	2,023	0	0	0	0	0	0	0	2,023	0
Issuance of class A common stock under stock option plans	1,127	8	0	0	0	1,127	0	0	0	0
Purchases of treasury stock	(24,475)	0	0	0	0	0	(159)	(24,475)	0	0
Share-based compensation expense	2,298	0	0	0	0	2,298	0	0	0	0
Balance at December 31, 2019	$ 508,559	15,888	$ 16	2,035	$ 2	$ 593,583	(7,807)	$ (658,880)	$ (9,651)	$ 583,489
Net income	657	0	0	0	0	0	0	0	0	657
Other comprehensive loss	(547)	0	0	0	0	0	0	0	(547)	0
Issuance of class A common stock under stock option plans	340	3	0	0	0	340	0	0	0	0
Purchases of treasury stock	(50,747)	0	0	0	0	0	(355)	(50,747)	0	0
Share-based compensation expense	3,164	0	0	0	0	3,164	0	0	0	0
Balance at March 31, 2020	$ 461,426	15,891	$ 16	2,035	$ 2	$ 597,087	(8,162)	$ (709,627)	$ (10,198)	$ 584,146
Net income	3,387	0	0	0	0	0	0	0	0	3,387
Other comprehensive income	1,011	0	0	0	0	0	0	0	1,011	0
Issuance of class A common stock under stock option plans	1,562	12	0	0	0	1,562	0	0	0	0
Purchases of treasury stock	(11,128)	0	0	0	0	0	(90)	(11,128)	0	0
Share-based compensation expense	2,202	0	0	0	0	2,202	0	0	0	0
Balance at June 30, 2020	$ 458,460	15,903	$ 16	2,035	$ 2	$ 600,851	(8,252)	$ (720,755)	$ (9,187)	$ 587,533
Net loss	(14,229)	0	0	0	0	0	0	0	0	(14,229)
Other comprehensive income	2,287	0	0	0	0	0	0	0	2,287	0
Conversion of class B to class A common stock	0	21	0	(21)	0	0	0	0	0	0
Issuance of class A common stock under stock option plans	1,714	13	0	0	0	1,714	0	0	0	0
Purchases of treasury stock	(61,349)	0	0	0	0	0	(432)	(61,349)	0	0
Share-based compensation expense	2,409	0	0	0	0	2,409	0	0	0	0
Balance at September 30, 2020	$ 389,292	15,937	$ 16	2,014	$ 2	$ 604,974	(8,684)	$ (782,104)	$ (6,900)	$ 573,304

The accompanying notes are an integral part of these Consolidated Financial Statements.

MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine Months Ended September 30,	
	2020 (unaudited)	2019 (unaudited)
Operating activities:		
Net (loss) income	$ (10,185)	$ 22,188
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	9,342	5,456
Reduction in carrying amount of right-of-use assets	6,134	6,087
Credit losses and sales allowances	1,874	892
Net realized (gain) loss on short-term investments	(94)	41
Deferred taxes	(13,341)	(3,352)
Release of liabilities for unrecognized tax benefits	0	(1,077)
Share-based compensation expense	7,897	7,887
Digital asset impairment losses	44,242	0
Changes in operating assets and liabilities:		
Accounts receivable	6,439	11,781
Prepaid expenses and other current assets	391	4,513
Deposits and other assets	(175)	349
Accounts payable and accrued expenses	902	(11,618)
Accrued compensation and employee benefits	(7,221)	(7,368)
Deferred revenue and advance payments	(12,385)	23,612
Operating lease liabilities	(7,148)	(6,394)
Other long-term liabilities	1,625	(674)
Net cash provided by operating activities	28,297	52,323
Investing activities:		
Purchases of digital assets	(425,000)	0
Proceeds from redemption of short-term investments	119,886	589,357
Purchases of property and equipment	(1,162)	(9,382)
Purchases of short-term investments	(9,928)	(320,487)
Net cash (used in) provided by investing activities	(316,204)	259,488
Financing activities:		
Proceeds from sale of class A common stock under exercise of employee stock options	3,616	5,442
Purchases of treasury stock	(122,480)	(48,244)
Net cash used in financing activities	(118,864)	(42,802)
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	2,839	(3,926)
Net (decrease) increase in cash, cash equivalents, and restricted cash	(403,932)	265,083
Cash, cash equivalents, and restricted cash, beginning of period	457,816	110,786
Cash, cash equivalents, and restricted cash, end of period	$ 53,884	$ 375,869

The accompanying notes are an integral part of these Consolidated Financial Statements.

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying Consolidated Financial Statements of MicroStrategy Incorporated ("MicroStrategy" or the "Company") are unaudited. In the opinion of management, all adjustments necessary for a fair statement of financial position and results of operations have been included. All such adjustments are of a normal recurring nature, unless otherwise disclosed. Interim results are not necessarily indicative of results for a full year.

Certain amounts in the prior year's Consolidated Statements of Cash Flows have been reclassified to conform to current year presentation. In particular, reductions in the carrying amount of right-of-use ("ROU") assets have been reclassified from "Depreciation and amortization" to "Reduction in carrying amount of right-of-use assets" in operating activities.

As discussed in Note 2, Recent Accounting Standards, to the Consolidated Financial Statements, the Company adopted Accounting Standards Update No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* and its subsequent amendments ("ASU 2016-13"), effective January 1, 2020. Comparative prior period Consolidated Financial Statements have not been restated for ASU 2016-13.

The Consolidated Financial Statements and Notes to Consolidated Financial Statements are presented as required by the United States Securities and Exchange Commission ("SEC") and do not contain certain information included in the Company's annual financial statements and notes. These financial statements should be read in conjunction with the Company's audited financial statements and the notes thereto filed with the SEC in the Company's Annual Report on Form 10-K for the year ended December 31, 2019. Except for a new accounting policy to account for the Company's acquisition of digital assets and its adoption of ASU 2016-13, as discussed below, there have been no significant changes in the Company's accounting policies since December 31, 2019.

The accompanying Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company is not aware of any material subsequent event that would require recognition or disclosure.

(b) Short-term Investments

The Company has periodically invested a portion of its cash in short-term investment instruments. All highly liquid investments with stated maturity dates between three months and one year from the purchase date are classified as short-term investments. The Company determines the appropriate classification of its short-term investments at the time of purchase and reassesses the appropriateness of the classification at each reporting date.

All of the Company's short-term investments are in U.S. Treasury securities. All short-term investments have been classified as available-for-sale and are reported at fair value within "Short-term investments" on the accompanying Consolidated Balance Sheets. The fair value of the Company's short-term investments is determined based on quoted market prices in active markets for identical securities (Level 1 inputs). Premiums and discounts related to the Company's short-term investments are amortized over the life of the investment and recorded in earnings. Each reporting period, the Company determines the amount of unrealized holding gains and losses on each individual security by comparing the fair value to the amortized cost. Unrealized holding gains and unrealized holding losses that are not a result of a credit loss are reported in other comprehensive income (loss) until realized. Beginning January 1, 2020, unrealized holding losses that are a result of a credit loss are recorded in earnings, with the establishment of an allowance for credit losses. As of September 30, 2020, the Company did not hold any short-term investments.

(c) Credit Losses on Accounts Receivable

The Company maintains an allowance for credit losses on its accounts receivable balances, which represents its best estimate of current expected credit losses over the contractual life of the accounts receivable. Beginning January 1, 2020, when evaluating the adequacy of its allowance for credit losses each reporting period, the Company analyzes accounts receivable balances with similar risk characteristics on a collective basis, considering factors such as the aging of receivable balances, payment terms, geographic location, historical loss experience, current information, and future expectations. Each reporting period, the Company reassesses whether any accounts receivable no longer share similar risk characteristics and should instead be evaluated as part of another pool or on an individual basis. Changes to the allowance for credit losses are adjusted through credit loss expense, which is presented within "General and administrative" operating expenses in the Consolidated Statements of Operations.

(d) Digital Assets

During the third quarter of 2020, the Company purchased an aggregate of $425.0 million in digital assets, comprised solely of bitcoin. The Company accounts for its digital assets as indefinite-lived intangible assets in accordance with Accounting Standards Codification ("ASC") 350, *Intangibles—Goodwill and Other*. The Company has ownership of and control over its bitcoin and utilizes, and expects to continue to utilize, third-party custodians to hold its bitcoin. The Company's digital assets are initially recorded at cost. Subsequently, they are measured at cost, net of any impairment losses incurred since acquisition.

The Company determines the fair value of its bitcoin on a nonrecurring basis in accordance with ASC 820, *Fair Value Measurement*, based on quoted (unadjusted) prices on the active exchange that the Company has determined is its principal market for bitcoin (Level 1 inputs). The Company performs an analysis each quarter to identify whether events or changes in circumstances, principally decreases in the quoted (unadjusted) prices on the active exchange, indicate that it is more likely than not that any of the assets are impaired. In determining if an impairment has occurred, the Company considers the lowest price of one bitcoin quoted on the active exchange at any time since acquiring the specific bitcoin held by the Company. If the carrying value of a bitcoin exceeds that lowest price, an impairment loss has occurred with respect to that bitcoin in the amount equal to the difference between its carrying value and such lowest price.

Impairment losses are recognized as "Digital asset impairment losses" in the Company's Consolidated Statements of Operations in the period in which the impairment is identified. The impaired digital assets are written down to their fair value at the time of impairment and this new cost basis will not be adjusted upward for any subsequent increase in fair value. Gains (if any) are not recorded until realized upon sale, at which point they would be presented net of any impairment losses in the Company's Consolidated Statements of Operations. In determining the gain to be recognized upon sale, the Company calculates the difference between the sales price and carrying value of the specific bitcoins sold immediately prior to sale.

See Note 4, Digital Assets, to the Consolidated Financial Statements for further information regarding the Company's purchases of digital assets.

(2) Recent Accounting Standards

Credit losses

The Company adopted ASU 2016-13 effective as of January 1, 2020. Under ASU 2016-13, the Company applies a current expected credit loss ("CECL") impairment model to its trade accounts receivable, in which lifetime expected credit losses on such financial assets are measured and recognized at each reporting date based on historical, current, and forecasted information. Under the CECL model, trade accounts receivable with similar risk characteristics are analyzed on a collective (pooled) basis. ASU 2016-13 also changed the impairment accounting for available-for-sale debt securities, requiring credit losses to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. Impairment due to factors other than credit loss will continue to be recorded through other comprehensive income (loss). Since adoption of this guidance, all of the Company's available-for-sale debt securities have consisted of U.S. Treasury securities with stated maturity dates between three months and one year from the purchase date and none of these investments have been impaired at periods' end. As of September 30, 2020, the Company did not hold any short-term investments. The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations, or cash flows. No cumulative-effect adjustment to retained earnings was made.

Cloud computing arrangements

The Company adopted Accounting Standards Update No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* ("ASU 2018-15") effective as of January 1, 2020 and elected to apply the guidance prospectively. ASU 2018-15 requires customers in a hosting arrangement that is a service contract to follow existing internal-use software guidance to determine which implementation costs to capitalize and which costs to expense. Customers are required to amortize the capitalized implementation costs over the term of the hosting arrangement, which might extend beyond the noncancelable period. Financial statement presentation under ASU 2018-15 requires: (i) capitalized implementation costs be classified in the same balance sheet line item as the amounts prepaid for the related hosting arrangement; (ii) amortization of capitalized implementation costs be presented in the same income statement line item as the service fees for the related hosting arrangement; and (iii) cash flows related to capitalized implementation costs be presented within the same category of cash flow activity as the cash flows for the related hosting arrangement (i.e. operating activity). Prior to the adoption of ASU 2018-15, the Company expensed as incurred all implementation costs related to cloud computing arrangements that were service contracts. As of September 30, 2020, the Company did not have any material capitalized implementation costs related to cloud computing arrangements that are service contracts.

Accounting for income taxes

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). ASU 2019-12 simplifies the accounting for income taxes by eliminating certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities related to outside basis differences. The standard is effective for interim and annual periods beginning January 1, 2021, with certain amendments applied prospectively and others requiring retrospective application. Early adoption is permitted, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company does not plan to adopt the standard before January 1, 2021 and currently believes this guidance will not have a material impact on its consolidated financial position, results of operations, and cash flows.

(3) Short-term Investments

As of September 30, 2020, the Company did not hold any short-term investment instruments. The amortized cost and fair value of available-for-sale investments at December 31, 2019 were $108.8 million and $108.9 million, respectively. The gross unrecognized holding gains accumulated in other comprehensive loss were not material as of December 31, 2019. As of December 31, 2019, none of the Company's available-for-sale investments were in unrealized loss positions.

(4) Digital Assets

During the three months ended September 30, 2020, the Company purchased approximately 38,250 bitcoins for $425.0 million in cash. During the three months ended September 30, 2020, the Company incurred $44.2 million of impairment losses on its bitcoin. As of September 30, 2020, the carrying value of the Company's bitcoin was $380.8 million, which reflects cumulative impairments of $44.2 million. The carrying value represents the lowest fair value of the bitcoins at any time since their acquisition. The Company did not sell any of its bitcoins during the three months ended September 30, 2020.

(5) Contract Balances

The Company invoices its customers in accordance with billing schedules established in each contract. The Company's rights to consideration from customers are presented separately in the Company's Consolidated Balance Sheets depending on whether those rights are conditional or unconditional.

The Company presents unconditional rights to consideration from customers within "Accounts receivable, net" in its Consolidated Balance Sheets. All of the Company's contracts are generally non-cancellable and/or non-refundable, and therefore an unconditional right generally exists when the customer is billed or amounts are billable per the contract.

Accounts receivable (in thousands) consisted of the following, as of:

	September 30, 2020	December 31, 2019
Billed and billable	$ 151,234	$ 165,153
Less: allowance for credit losses	(2,722)	(1,637)
Accounts receivable, net	$ 148,512	$ 163,516

Changes in the allowance for credit losses were not material for the three and nine months ended September 30, 2020. In estimating its allowance for credit losses as of September 30, 2020, the Company considered the impact from the pandemic caused by a novel strain of coronavirus ("COVID-19") and established additional risk pools and reserves relating to customers in certain geographic areas and industries, in addition to separately assessing the reserves for certain customers that have been granted extended payment terms.

Rights to consideration that are subject to a condition other than the passage of time are considered contract assets and presented within "Prepaid expenses and other current assets" in the Consolidated Balance Sheets since the rights to consideration are expected to become unconditional and transfer to accounts receivable within one year. Contract assets generally consist of accrued sales and usage-based royalty revenue. In these arrangements, consideration is not billed or billable until the royalty reporting is received, generally in the subsequent quarter, at which time the contract asset transfers to accounts receivable and a true-up adjustment is recorded to revenue. These true-up adjustments are generally not material. During the three and nine months ended September 30, 2020 and 2019, there were no significant impairments to the Company's contract assets, nor were there any significant changes in the timing of the Company's contract assets being reclassified to accounts receivable. Contract assets included in "Prepaid expenses and other current assets" in the Consolidated Balance Sheets consisted of $1.1 million and $1.2 million in accrued sales and usage-based royalty revenue as of September 30, 2020 and December 31, 2019, respectively.

Contract liabilities are amounts received or due from customers in advance of the Company transferring the software or services to the customer. In the case of multi-year service contracts arrangements, the Company generally does not invoice more than one year in advance of services and does not record any deferred revenue for amounts that have not been invoiced and that require an additional contract. Revenue is subsequently recognized in the period(s) in which control of the software or services is transferred to the customer. The Company's contract liabilities are presented as either current or non-current "Deferred revenue and advance payments" in the Consolidated Balance Sheets, depending on whether the software or services are expected to be transferred to the customer within the next year.

The Company's "Accounts receivable, net" and "Deferred revenue and advance payments" balances in the Consolidated Balance Sheets include unpaid amounts related to contracts under which the Company has an enforceable right to invoice the customer for non-cancellable and/or non-refundable software and services. Changes in accounts receivable and changes in deferred revenue and advance payments are presented net of these unpaid amounts in "Operating activities" in the Consolidated Statements of Cash Flows.

Deferred revenue and advance payments (in thousands) from customers consisted of the following, as of:

	September 30, 2020	December 31, 2019
Current:		
Deferred product licenses revenue	$ 186	$ 481
Deferred subscription services revenue	19,535	16,561
Deferred product support revenue	134,632	161,670
Deferred other services revenue	6,492	8,395
Total current deferred revenue and advance payments	$ 160,845	$ 187,107
Non-current:		
Deferred product licenses revenue	$ 140	$ 293
Deferred subscription services revenue	5,988	97
Deferred product support revenue	4,759	3,417
Deferred other services revenue	770	537
Total non-current deferred revenue and advance payments	$ 11,657	$ 4,344

During the three and nine months ended September 30, 2020, the Company recognized revenues of $37.3 million and $160.5 million, respectively, from amounts included in the total deferred revenue and advance payments balances at the beginning of 2020. During the three and nine months ended September 30, 2019, the Company recognized revenues of $36.1 million and $154.1 million, respectively, from amounts included in the total deferred revenue and advance payments balances at the beginning of 2019. For the three and nine months ended September 30, 2020 and 2019, there were no significant changes in the timing of revenue recognition on the Company's deferred balances.

As of September 30, 2020, the Company had an aggregate transaction price of $172.5 million allocated to remaining performance obligations related to product support, subscription services, other services, and, in limited cases, product licenses contracts. The Company expects to recognize $160.8 million within the next 12 months and $11.7 million thereafter.

(6) Leases

The Company leases office space in the United States and foreign locations under operating lease agreements. Office space is the Company's only material underlying asset class under operating lease agreements. The Company has no material finance leases.

Under the Company's office space lease agreements, fixed payments and variable payments that depend on an index or rate are typically comprised of base rent and parking fees. Additionally, under these agreements the Company is generally responsible for certain variable payments that typically include certain taxes, utilities and maintenance costs, and other fees. These variable lease payments are generally based on the Company's occupation or usage percentages and are subject to adjustments by the lessor.

As of September 30, 2020, the Company's ROU assets and total lease liabilities were $67.6 million and $93.1 million, respectively, for leases in the United States and $11.7 million and $12.6 million, respectively, for foreign leases. As of December 31, 2019, the Company's ROU assets and total lease liabilities were $71.0 million and $97.5 million, respectively, for leases in the United States and $14.5 million and $15.5 million, respectively, for foreign leases. The Company's most significant lease is for its corporate headquarters in Northern Virginia. The ROU asset and total lease liability related to the Company's corporate headquarters lease were $64.1 million and $89.6 million, respectively, as of September 30, 2020, and $66.9 million and $93.3 million, respectively, as of December 31, 2019. During the nine months ended September 30, 2020, $0.7 million of ROU assets were obtained in exchange for new operating lease liabilities. During the nine months ended September 30, 2019, $5.0 million of ROU assets were obtained in exchange for new operating lease liabilities.

(7) Commitments and Contingencies

(a) Commitments

From time to time, the Company enters into certain types of contracts that require it to indemnify parties against third-party claims. These contracts primarily relate to agreements under which the Company assumes indemnity obligations for intellectual property infringement, as well as other obligations from time to time depending on arrangements negotiated with customers and other third parties. The conditions of these obligations vary. Thus, the overall maximum amount of the Company's indemnification obligations cannot be reasonably estimated. Historically, the Company has not been obligated to make significant payments for these obligations and does not currently expect to incur any material obligations in the future. Accordingly, the Company has not recorded an indemnification liability on its Balance Sheets as of September 30, 2020 or December 31, 2019.

See Note 6, Leases, to the Consolidated Financial Statements for information regarding the Company's commitments that are related to lease agreements.

See Note 9, Income Taxes, to the Consolidated Financial Statements for information regarding the Company's commitments that are related to a mandatory deemed repatriation transition tax ("Transition Tax") imposed under the U.S. Tax Cuts and Jobs Act (the "Tax Act").

(b) Contingencies

Following an internal review initiated in 2018, the Company believes that its Brazilian subsidiary failed or likely failed to comply with local procurement regulations in conducting business with certain Brazilian government entities.

On February 6, 2020, the Company learned that a Brazilian court has authorized the Brazilian Federal Police to use certain investigative measures in its investigation into alleged corruption and procurement fraud involving certain government officials, pertaining to a particular transaction. Pursuant to this court authorization, numerous entities and individuals across Brazil have been subject to the freezing of assets and other measures, including a former reseller and a former employee of the Company's Brazilian subsidiary. On February 6, 2020, the bank accounts of the Company's Brazilian subsidiary were also frozen up to an amount of BRL 10.0 million, or approximately $2.3 million. On May 22, 2020, these bank accounts of the Company's Brazilian subsidiary were unfrozen on the basis of a court decision that found the alleged illicit origin of the amounts was not sufficiently evidenced. On May 25, 2020, the Federal Prosecution Office presented an appeal to this decision, but the accounts will remain unfrozen pending the outcome of the appeal. The transaction at issue is part of the basis of the previously reported failure or likely failure of the Brazilian subsidiary to comply with local procurement regulations. The Company is not a subject of the investigation, and the Company is not aware of any allegations that the former employee or the Company made any payments to Brazilian government officials. The Brazilian Federal Police has expanded its investigation to include other possible cases of procurement fraud involving Brazilian government entities; however, the Company's Brazilian subsidiary has not been a target of any additional investigation.

While the Company believes that it is probable that the resolution of these Brazilian matters will result in a loss, the amount or range of loss is not reasonably estimable at this time. Given the stage of these matters, the outcome may result in a material impact on the Company's earnings and financial results for the period in which any such liability is accrued. However, the Company believes that the outcome of these matters will not have a material effect on the Company's financial position.

The Company is also involved in various legal proceedings arising in the normal course of business. Although the outcomes of these legal proceedings are inherently difficult to predict, management does not expect the resolution of these legal proceedings to have a material adverse effect on the Company's financial position, results of operations, or cash flows.

The Company has contingent liabilities that, in management's judgment, are not probable of assertion. If such unasserted contingent liabilities were to be asserted, or become probable of assertion, the Company may be required to record significant expenses and liabilities in the period in which these liabilities are asserted or become probable of assertion.

(8) Treasury Stock

The Board of Directors has authorized the Company's repurchase of up to an aggregate of $800.0 million of its class A common stock from time to time on the open market through April 29, 2023 (the "Share Repurchase Program"), although the program may be suspended or discontinued by the Company at any time. The timing and amount of any shares repurchased will be determined by the Company's management based on its evaluation of market conditions and other factors. The Share Repurchase Program may be funded using the Company's working capital, as well as proceeds from any other funding arrangements that the Company may enter into in the future.

During the three months ended September 30, 2020, the Company did not repurchase any shares of its class A common stock pursuant to the Share Repurchase Program. During the nine months ended September 30, 2020, the Company repurchased an aggregate of 444,769 shares of its class A common stock at an average price per share of $139.12 and an aggregate cost of $61.9 million pursuant to the Share Repurchase Program. During the three months ended September 30, 2019, the Company did not repurchase any shares of its class A common stock. During the nine months ended September 30, 2019, the Company repurchased an aggregate of 362,148 shares of its class A common stock at an average price per share of $133.21 and an aggregate cost of $48.2 million pursuant to the Share Repurchase Program. As of September 30, 2020, the Company had repurchased an aggregate of 5,674,226 shares of its class A common stock at an average price per share of $104.13 and an aggregate cost of $590.9 million pursuant to the Share Repurchase Program. As of September 30, 2020, $209.1 million of the Company's class A common stock remained available for repurchase pursuant to the Share Repurchase Program. The average price per share and aggregate cost amounts disclosed above include broker commissions.

On August 11, 2020, the Company announced that it commenced a "modified Dutch Auction" tender offer (the "Offer") to purchase up to $250.0 million in value of shares of its issued and outstanding class A common stock, or such lesser number of shares as are properly tendered and not properly withdrawn, at a price not greater than $140.00 nor less than $122.00 per share. The Offer expired at 5:00 p.m., New York City time, on September 10, 2020. During the three and nine months ended September 30, 2020, the Company repurchased an aggregate of 432,313 shares of its class A common stock through the Offer at a price of $140.00 per share for an aggregate cost of $61.3 million, inclusive of $0.8 million in certain fees and expenses related to the Offer.

(9) Income Taxes

The Company and its subsidiaries conduct business in the United States and various foreign countries and are subject to taxation in numerous domestic and foreign jurisdictions. As a result of its business activities, the Company files tax returns that are subject to examination by various U.S. federal, state, and local, and foreign tax authorities. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or foreign income tax examination by tax authorities for years before 2016. However, due to the Company's use of state net operating loss ("NOL") carryovers in the United States, state tax authorities may attempt to reduce or fully offset the amount of state NOL carryovers from tax years ended 2011 and forward that the Company used in later tax years. The Company's major foreign tax jurisdictions and tax years that remain subject to potential examination are Poland for tax years 2015 and forward, Spain, Germany, and Italy for tax years 2016 and forward, and the United Kingdom for tax years 2018 and forward. To date there have been no material assessments related to audits in any of the applicable foreign jurisdictions.

As of September 30, 2020, the Company had unrecognized tax benefits of $2.7 million, which are recorded in "Other long-term liabilities" in the Company's Consolidated Balance Sheet. If recognized, $2.6 million of these unrecognized tax benefits would impact the Company's effective tax rate. The Company recognizes estimated accrued interest related to unrecognized income tax benefits in the (benefit from) provision for income tax accounts. Penalties relating to income taxes, if incurred, would also be recognized as a component of the Company's (benefit from) provision for income taxes. Over the next 12 months, the amount of the Company's liability for unrecognized tax benefits is not expected to change by a material amount. As of September 30, 2020, the amount of cumulative accrued interest expense on unrecognized income tax benefits was approximately $0.3 million.

The following table summarizes the Company's deferred tax assets, net of deferred tax liabilities and valuation allowance (in thousands), as of:

	September 30, 2020	December 31, 2019
Deferred tax assets, net of deferred tax liabilities	$ 35,651	$ 21,513
Valuation allowance	(2,138)	(2,130)
Deferred tax assets, net of deferred tax liabilities and valuation allowance	$ 33,513	$ 19,383

The valuation allowances as of September 30, 2020 and December 31, 2019 primarily related to certain foreign tax credit carryforwards that, in the Company's present estimation, more likely than not will not be realized.

In determining its tax provision or benefit from income taxes, the Company estimates its annual effective tax rate for the full fiscal year and applies that rate to its income or loss before income taxes for the current reporting period. The Company also records discrete items in each respective period as appropriate. The estimated effective tax rate is subject to fluctuation based on the level and mix of earnings and losses by tax jurisdiction, foreign tax rate differentials, and the relative impact of permanent book to tax differences (e.g., non-deductible expenses). Each quarter, a cumulative adjustment is recorded for any fluctuations in the estimated annual effective tax rate as compared to the prior quarter. As a result of these factors, and due to potential changes in the Company's period-to-period results, fluctuations in the Company's effective tax rate and respective tax provisions or benefits may occur.

For the nine months ended September 30, 2020, the Company recorded a benefit from income taxes of $5.7 million that resulted in an effective tax rate of 36.0%, as compared to a provision for income taxes of $6.4 million that resulted in an effective tax rate of 22.4% for the nine months ended September 30, 2019. The change in the effective tax rate in 2020 is mainly due to certain discrete items and the change in the expected proportion of U.S. versus foreign income between periods.

In the United States, the Tax Act reduced the U.S. corporate tax rate from 35% to 21%, effective January 1, 2018. Additionally, the Tax Act requires certain Global Intangible Low Taxed Income ("GILTI") earned by controlled foreign corporations ("CFCs") to be included in the gross income of the CFCs' U.S. shareholder. The Company has elected the "period cost method" and treats taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred. The Tax Act allows a U.S. corporation a deduction equal to a certain percentage of its foreign-derived intangible income ("FDII"). The Company estimated the impact of the GILTI tax and FDII deduction in determining its 2020 annual effective tax rate that is reflected in its benefit from income taxes for the nine months ended September 30, 2020.

The Tax Act also imposed a Transition Tax on previously untaxed accumulated and current earnings and profits of certain foreign subsidiaries of the Company. As a result of the Tax Act, the Company recorded a final tax expense of $37.2 million related to the Transition Tax, comprised of a provisional Transition Tax obligation of $40.3 million in 2017 and a subsequent $(3.1) million measurement period adjustment in 2018. As of September 30, 2020, $28.0 million of the Transition Tax was unpaid, of which $25.1 million was recorded in "Other long-term liabilities" and $3.0 million was recorded in "Accounts payable, accrued expenses, and operating lease liabilities" in the Company's Consolidated Balance Sheet. The Company has elected to pay the Transition Tax over an eight-year period beginning in 2018, as permitted under the Tax Act.

The Company earns a significant amount of its revenues outside the United States. The Company repatriated foreign earnings and profits of $151.3 million during 2019 and $186.6 million during 2020. As of September 30, 2020, the remaining balance of the undistributed foreign earnings and profits earned prior to December 31, 2019 is estimated to be $94.8 million. The Company no longer intends to permanently reinvest its foreign earnings and profits. After taking into account the Transition Tax and GILTI tax described above, the Company expects the repatriations during 2019 and 2020 generated only an immaterial U.S. tax expense related to U.S. state income taxes. As of September 30, 2020 and December 31, 2019, the amount of cash and cash equivalents and short-term investments held by the Company's U.S. entities was $19.0 million and $289.4 million, respectively, and by the Company's non-U.S. entities was $33.7 million and $276.2 million, respectively.

In determining the Company's (benefit from) provision for income taxes, net deferred tax assets, liabilities, and valuation allowances, management is required to make estimates and judgments related to projections of domestic and foreign profitability, the timing and extent of the utilization of NOL carryforwards, applicable tax rates, transfer pricing methods, and prudent and feasible tax planning strategies. As a multinational company, the Company is required to calculate and provide for estimated income tax liabilities for each of the tax jurisdictions in which it operates. This process involves estimating current tax obligations and exposures in each jurisdiction, as well as making judgments regarding the future recoverability of deferred tax assets. Changes in the estimated level of annual pre-tax income, changes in tax laws, particularly changes related to the utilization of NOLs in various jurisdictions, and changes resulting from tax audits can all affect the overall effective income tax rate, which, in turn, impacts the overall level of income tax expense or benefit and net income. According to the guidance under ASC 740, *Income Taxes*, certain items or events related to continuing operations are specifically excluded from the estimated annual effective tax rate, and their related tax effects are recognized discretely, because these items or events are not estimable. The Company's digital asset impairment losses of $44.2 million incurred during the quarter ended September 30, 2020 were excluded on this basis from the Company's estimated full year pre-tax book income in calculating the Company's estimated annual effective tax rate. A tax benefit of $12.8 million related to the impairment losses was recorded as a discrete item during the quarter ended September 30, 2020.

Estimates and judgments related to the Company's projections and assumptions are inherently uncertain. Therefore, actual results could differ materially from projections. Currently, the Company expects to use its deferred tax assets, subject to Internal Revenue Code limitations, within the carryforward periods. Valuation allowances have been established where the Company has concluded that it is more likely than not that such deferred tax assets are not realizable. If the Company is unable to sustain or increase profitability in future periods, it may be required to increase the valuation allowance against the deferred tax assets, which could result in a charge that would materially adversely affect net income in the period in which the charge is incurred.

(10) Share-based Compensation

The Company's 2013 Stock Incentive Plan (as amended, the "2013 Equity Plan") authorizes the issuance of various types of share-based awards to the Company's employees, officers, directors, and other eligible participants. As of September 30, 2020, a total of 2,300,000 shares of the Company's class A common stock were authorized for issuance under the 2013 Equity Plan. As of September 30, 2020, there were 479,638 shares of class A common stock reserved and available for future issuance under the 2013 Equity Plan.

Stock option awards

As of September 30, 2020, there were options to purchase 1,487,408 shares of class A common stock outstanding under the 2013 Equity Plan.

The following table summarizes the Company's stock option activity (in thousands, except per share data and years) for the three months ended September 30, 2020:

	Stock Options Outstanding			
	Shares	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Years)
Balance as of July 1, 2020	1,481	$ 140.88		
Granted	67	$ 144.34		
Exercised	(13)	$ 130.59	$ 168	
Forfeited/Expired	(48)	$ 143.05		
Balance as of September 30, 2020	1,487	$ 141.06		
Exercisable as of September 30, 2020	886	$ 138.59	$ 17,825	4.6
Expected to vest as of September 30, 2020	601	$ 144.70	$ 4,637	8.7
Total	1,487	$ 141.06	$ 22,462	6.3

Stock options outstanding as of September 30, 2020 are comprised of the following range of exercise prices per share (in thousands, except per share data and years):

	Stock Options Outstanding at September 30, 2020		
Range of Exercise Prices per Share	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (Years)
$119.02 - $140.00	887	$ 125.28	5.4
$140.01 - $160.00	355	$ 151.37	9.3
$160.01 - $180.00	95	$ 169.07	4.0
$180.01 - $201.25	150	$ 192.25	5.9
Total	1,487	$ 141.06	6.3

An aggregate of 1,250 stock options with an aggregate fair value of $0.1 million vested during the three months ended September 30, 2020. The weighted average grant date fair value of stock option awards using the Black-Scholes pricing model was $48.20 for each share subject to a stock option granted during the three months ended September 30, 2020 based on the following assumptions:

	Three months ended September 30, 2020
Expected term of options in years	6.3
Expected volatility	33.6% - 33.7%
Risk-free interest rate	0.3% - 0.4%
Expected dividend yield	0.0%

No stock option awards were granted during the three months ended September 30, 2019.

For the three and nine months ended September 30, 2020, the Company recognized approximately $2.4 million and $7.8 million, respectively, in share-based compensation expense from stock options granted under the 2013 Equity Plan. For the three and nine months ended September 30, 2019, the Company recognized approximately $1.8 million and $7.8 million, respectively, in share-based compensation expense from stock options granted under the 2013 Equity Plan. As of September 30, 2020, there was approximately $24.7 million of total unrecognized share-based compensation expense related to unvested stock options. The Company expects to recognize this remaining share-based compensation expense over a weighted average vesting period of approximately 2.7 years.

Other stock-based awards

During the three months ended September 30, 2020, the Company did not grant any “other stock-based awards” under the 2013 Equity Plan. For each of the three and nine months ended September 30, 2020 and 2019, the Company did not recognize a material amount of share-based compensation expense from other stock-based awards. As of September 30, 2020, there was approximately $0.2 million of total unrecognized share-based compensation expense related to other stock-based awards. The Company expects to recognize this remaining share-based compensation expense over a weighted average vesting period of approximately 1.7 years, subject to additional fair value adjustments through the earlier of settlement or expiration.

(11) Common Equity and Earnings per Share

The Company has two classes of common stock: class A common stock and class B common stock. Holders of class A common stock generally have the same rights, including rights to dividends, as holders of class B common stock, except that holders of class A common stock have one vote per share while holders of class B common stock have 10 votes per share. Each share of class B common stock is convertible at any time, at the option of the holder, into one share of class A common stock. As such, basic and fully diluted earnings per share for class A common stock and for class B common stock are the same. The Company has never declared or paid any cash dividends on either class A or class B common stock. As of September 30, 2020 and December 31, 2019, there were no shares of preferred stock issued or outstanding.

Potential shares of common stock are included in the diluted earnings per share calculation when dilutive. Potential shares of common stock, consisting of common stock issuable upon exercise of outstanding stock options, are calculated using the treasury stock method. For the three and nine months ended September 30, 2020, stock options issued under the 2013 Equity Plan to purchase a weighted average of approximately 1,476,000 and 1,536,000 shares of class A common stock, respectively, were excluded from the diluted earnings per share calculation because their impact would have been anti-dilutive. For the three and nine months ended September 30, 2019, stock options issued under the 2013 Equity Plan to purchase a weighted average of approximately 863,000 and 925,000 shares of class A common stock, respectively, were excluded from the diluted earnings per share calculation because their impact would have been anti-dilutive.

(12) Segment Information

The Company manages its business in one reportable operating segment. The Company's one reportable operating segment is engaged in the design, development, marketing, and sales of its software platform through licensing arrangements and cloud subscriptions and related services. The following table presents total revenues, gross profit, and long-lived assets, excluding long-term deferred tax assets, (in thousands) according to geographic region:

Geographic regions:	Domestic	EMEA	Other Regions	Consolidated
Three months ended September 30, 2020				
Total revenues	$ 78,763	$ 36,884	$ 11,761	$ 127,408
Gross profit	$ 67,055	$ 29,728	$ 8,889	$ 105,672
Three months ended September 30, 2019				
Total revenues	$ 68,063	$ 39,184	$ 12,446	$ 119,693
Gross profit	$ 54,410	$ 31,313	$ 10,155	$ 95,878
Nine months ended September 30, 2020				
Total revenues	$ 206,318	$ 109,835	$ 33,263	$ 349,416
Gross profit	$ 166,566	$ 86,760	$ 25,820	$ 279,146
Nine months ended September 30, 2019				
Total revenues	$ 200,282	$ 115,816	$ 36,698	$ 352,796
Gross profit	$ 156,938	$ 91,520	$ 29,000	$ 277,458
As of September 30, 2020				
Long-lived assets	$ 499,074	$ 11,615	$ 10,243	$ 520,932
As of December 31, 2019				
Long-lived assets	$ 118,168	$ 13,636	$ 11,912	$ 143,716

The domestic region consists of the United States and Canada. The EMEA region includes operations in Europe, the Middle East, and Africa. The other regions include all other foreign countries, generally comprising Latin America and the Asia Pacific region. For the three and nine months ended September 30, 2020 and 2019, no individual foreign country accounted for 10% or more of total consolidated revenues.

For the three and nine months ended September 30, 2020 and 2019, no individual customer accounted for 10% or more of total consolidated revenues.

As of September 30, 2020 and December 31, 2019, no individual foreign country accounted for 10% or more of total consolidated assets.

(13) Sale of Domain Name

On May 30, 2019, the Company completed the sale of its Voice.com domain name for consideration of $30.0 million in cash (the "Domain Name Sale"). As of the date of the Domain Name Sale, the Company had no unamortized costs associated with the Voice.com domain name asset. The Company did not incur any material costs related to the Domain Name Sale. The Domain Name Sale resulted in a gain of $29.8 million in the second quarter of 2019, which was recorded as "Other income, net" for such quarter in the Consolidated Statements of Operations. The Company also recorded a discrete $8.1 million tax provision in the second quarter of 2019 related to the Domain Name Sale.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Information

This Quarterly Report on Form 10-Q (this "Quarterly Report") contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For this purpose, any statements contained herein that are not statements of historical fact, including without limitation, certain statements regarding industry prospects and our results of operations or financial position, may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements. The important factors discussed under "Part II. Item 1A. Risk Factors," among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein and presented elsewhere by management from time to time. Such forward-looking statements represent management's current expectations and are inherently uncertain. Investors are warned that actual results may differ from management's expectations.

Business Overview

MicroStrategy® is a global leader in enterprise analytics software and services. Our vision is to enable Intelligence Everywhere™. The MicroStrategy platform brings together data from our customers' enterprise applications, such as their financial systems, human resources systems, and supply chain and customer relationship management tools, to provide analytics for actionable insights. Customers can also use our consulting and education offerings to harness MicroStrategy's innovative technology and empower their workforce to make better decisions.

Earlier this year, we released MicroStrategy 2020™, the newest release of our flagship enterprise analytics platform. MicroStrategy 2020 allows our customers to build high-performance, governed, and secure applications that can scale across their enterprise. MicroStrategy 2020 highlights include:

- HyperIntelligence® that delivers contextual information and insights quickly within everyday business applications. Designed to work with commercial, off-the-shelf applications like Salesforce, Workday, and Outlook, HyperIntelligence dynamically surfaces byte-sized cards directly within these applications. MicroStrategy 2020 offers HyperIntelligence for Web, Mobile, and Office.
- An open architecture that embraces freedom of choice with an open API layer, leveraging our Enterprise Semantic Graph™ for trusted, governed data. Optimized connectors combine the tools people use with the power, performance, and trust that comes with the MicroStrategy platform. MicroStrategy 2020 delivers improvements for connectors to analytics tools such as Tableau, Qlik, Power BI, and Excel. Additionally, it includes new connectors to data science tools Jupyter and RStudio.
- Flexible deployment methods that allow our customers to choose where to deploy our analytics platform and the ability to easily migrate across these three deployment options: on premises, the customer's cloud environment, or the MicroStrategy Cloud™ Environment ("MCE"). MCE is a cloud subscription service that allows customers to deploy our platform on Amazon Web Services ("AWS") or Microsoft Azure environments hosted and managed by us. It delivers distinct advantages, including lower total cost of ownership, faster upgrades, and greater flexibility to increase adoption. MCE also offers robust security and API infrastructure and can be easily extended to help our customers run their business intelligence infrastructure and applications.

Our customers include leading companies from a wide range of industries, including retail, consulting, technology, manufacturing, banking, insurance, finance, healthcare, telecommunications, as well as the public sector.

The analytics market is highly competitive. Our future success depends on the effectiveness with which we can differentiate our offerings from those offered by large software vendors that provide products across multiple lines of business, including one or more products that directly compete with our offerings, and other potential competitors across analytics implementation projects of varying sizes. We believe a key differentiator of MicroStrategy is our modern, open, comprehensive enterprise platform that can be extended to other tools and systems, can scale across the enterprise, is optimized for cloud or on-premises deployments, and can be combined with unique packages of our expert services and education offerings.

Impact of COVID-19 on Our Business

The COVID-19 pandemic has resulted, and is likely to continue to result, in significant economic disruption. It has already disrupted global travel and supply chains and adversely impacted global commercial activity. Considerable uncertainty still surrounds COVID-19 and its potential long-term economic effects, as well as the effectiveness of any responses taken by government authorities and businesses. The travel restrictions, limits on hours of operations and/or closures of non-essential businesses, and other efforts to curb the spread of COVID-19 have significantly disrupted business activity globally.

Significant uncertainty exists concerning the impact of the COVID-19 pandemic on our customers' and prospects' business and operations in future periods. Although our product licenses revenues were not materially impacted by the COVID-19 pandemic during the three and nine months ended September 30, 2020, we believe our product licenses revenues may be negatively impacted in future periods until the effects of the pandemic have subsided due to a general increase in the time it takes to close deals in the current depressed macroeconomic environment. Although we continued to see high renewal rates in our product support services during the three and nine months ended September 30, 2020, we believe our product support revenues may be negatively impacted in future periods by the overall depressed macroeconomic environment and to the extent that customers require extended payment terms or determine not to renew their product support arrangements as part of their efforts to reduce expenses. Similarly, we may experience declines in our consulting revenues in future periods due to the overall depressed macroeconomic environment and as our customers continue to operate in remote work environments and aim to reduce expenses. The uncertainty related to COVID-19 may also result in increased volatility in the financial projections we use as the basis for estimates and assumptions used in our financial statements.

We are also continuing to adapt our operations to meet the challenges of this uncertain and rapidly evolving situation, including establishing remote working arrangements for our employees, limiting non-essential business travel, and cancelling or shifting our customer, employee, and industry events to a virtual-only format for the foreseeable future. Our sales and marketing expenses decreased significantly during the three and nine months ended September 30, 2020, as we adapted to the challenges of selling in the current depressed macroeconomic environment, adopted virtual sales and marketing practices, and streamlined our team to sell in this new environment. We expect our sales and marketing expenses, during the balance of 2020, will continue to be lower compared to prior year periods. We also expect our research and development and general and administrative expenses, during the balance of 2020, will continue to be lower compared to prior year periods as a result of recent personnel reductions.

We have received, and may continue to receive, government assistance from various relief packages available in countries where we operate. For example, in the United States, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted on March 27, 2020 to provide broad-based economic relief to various sectors of the U.S. economy through a variety of means, including payroll and income tax deferrals and employee retention credits. In the Asia Pacific region, government assistance provided to us has primarily been in the form of employer payroll tax exemptions. We expect to defer payment of $4.5 million of our employer portion of U.S. social security taxes accrued through December 31, 2020, half of which we expect to pay by December 31, 2021 and the remainder by December 31, 2022. Where taxes payable to government entities have been deferred to a later date, no reduction of expenses has been recorded.

Effects of the COVID-19 pandemic that may negatively impact our business in future periods include, but are not limited to: limitations on the ability of our customers to conduct their business, purchase our products and services, and make timely payments; curtailed consumer spending; deferred purchasing decisions; delayed consulting services implementations; and decreases in product licenses revenues driven by channel partners. We will continue to actively monitor the nature and extent of the impact to our business, operating results, and financial condition.

Treasury Management Strategy and Bitcoin Acquisitions

In July 2020, we announced a capital allocation strategy, pursuant to which we intended to use capital in excess of working capital requirements to (i) return up to $250.0 million to our stockholders over a 12-month period and (ii) invest up to another $250.0 million during the same period in one or more alternative investments or assets, which may include stocks, bonds, commodities such as gold, digital assets such as bitcoin, or other asset types. In August 2020, our Board of Directors authorized the investment of up to $250.0 million in bitcoin. In September 2020, our Board of Directors adopted a new Treasury Reserve Policy that updated our treasury management and capital allocation strategies, under which our treasury reserve assets will consist of (i) cash and cash equivalents and short-term investments ("Cash Assets") held by us that exceed working capital requirements and (ii) bitcoin held by us, with bitcoin serving as the primary treasury reserve asset on an ongoing basis, subject to market conditions and anticipated needs of the business for Cash Assets. As part of these treasury management and capital allocation strategies, we purchased a total of approximately 38,250 bitcoins at an aggregate purchase price of $425.0 million in the third quarter of 2020 for an average purchase price of approximately $11,111 per bitcoin. As a result of the Treasury Reserve Policy, in future periods, we may purchase additional bitcoins and increase our overall holdings of bitcoin or sell our bitcoins and decrease our overall holdings of bitcoin.

Operating Highlights

The following table sets forth certain operating highlights (in thousands) for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Revenues				
Product licenses	$ 29,573	$ 18,972	$ 56,973	$ 57,384
Subscription services	8,305	7,894	24,294	22,142
Total product licenses and subscription services	37,878	26,866	81,267	79,526
Product support	71,352	72,885	212,548	217,313
Other services	18,178	19,942	55,601	55,957
Total revenues	**127,408**	**119,693**	**349,416**	**352,796**
Cost of revenues				
Product licenses	545	526	1,729	1,597
Subscription services	3,656	3,889	11,512	10,976
Total product licenses and subscription services	4,201	4,415	13,241	12,573
Product support	5,679	6,922	19,234	21,710
Other services	11,856	12,478	37,795	41,055
Total cost of revenues	**21,736**	**23,815**	**70,270**	**75,338**
Gross profit	**105,672**	**95,878**	**279,146**	**277,458**
Operating expenses				
Sales and marketing	35,330	43,935	109,799	140,968
Research and development	26,638	27,457	78,606	83,436
General and administrative	19,733	19,900	60,514	63,684
Digital asset impairment losses	44,242	0	44,242	0
Total operating expenses	**125,943**	**91,292**	**293,161**	**288,088**
(Loss) income from operations	**$ (20,271)**	**$ 4,586**	**$ (14,015)**	**$ (10,630)**

We base our internal operating expense forecasts on expected revenue trends and strategic objectives. Many of our expenses, such as office leases and certain personnel costs, are relatively fixed. Accordingly, any shortfall in revenue may cause significant variation in our operating results. In addition, we have incurred and may continue to incur significant impairment losses on our digital assets and we may recognize gains upon sale of our digital assets in the future, which would be presented net of any impairment losses within operating expenses. We therefore believe that quarter-to-quarter comparisons of our operating results may not be a good indication of our future performance.

Employees

As of September 30, 2020, we had a total of 2,073 employees, of whom 871 were based in the United States and 1,202 were based internationally. The following table summarizes employee headcount as of the dates indicated:

	September 30, 2020	December 31, 2019	September 30, 2019
Subscription services	54	69	66
Product support	165	219	231
Consulting	397	392	390
Education	38	38	38
Sales and marketing	495	597	616
Research and development	666	743	775
General and administrative	258	338	337
Total headcount	2,073	2,396	2,453

Share-based Compensation Expense

As discussed in Note 10, Share-based Compensation, to the Consolidated Financial Statements, we have outstanding stock options to purchase shares of our class A common stock and certain other stock-based awards under our 2013 Equity Plan. Share-based compensation expense (in thousands) from these awards was recognized in the following cost of revenues and operating expense line items in our Consolidated Statements of Operations for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of subscription services revenues	$ 16	$ 0	$ 49	$ 0
Cost of product support revenues	34	83	108	245
Cost of consulting revenues	0	46	0	144
Cost of education revenues	67	0	200	20
Sales and marketing	203	(130)	1,009	1,828
Research and development	625	584	1,837	1,848
General and administrative	1,615	1,251	4,694	3,802
Total share-based compensation expense	$ 2,560	$ 1,834	$ 7,897	$ 7,887

As of September 30, 2020, we estimated that approximately $24.9 million of additional share-based compensation expense for awards granted under the 2013 Equity Plan will be recognized over a remaining weighted average period of 2.7 years.

Non-GAAP Financial Measures

We are providing supplemental financial measures for (i) non-GAAP income (loss) from operations that excludes the impact of our share-based compensation expense and impairment losses and gains on sale from intangible assets, which include our digital assets, (ii) non-GAAP net income and non-GAAP diluted earnings per share that exclude the impact of our share-based compensation expense and impairment losses and gains on sale from intangible assets, which include our digital assets and the Domain Name Sale in the second quarter of 2019, and (iii) certain non-GAAP constant currency revenues, cost of revenues, and operating expenses that exclude foreign currency exchange rate fluctuations. These supplemental financial measures are not measurements of financial performance under generally accepted accounting principles in the United States ("GAAP") and, as a result, these supplemental financial measures may not be comparable to similarly titled measures of other companies. Management uses these non-GAAP financial measures internally to help understand, manage, and evaluate our business performance and to help make operating decisions.

We believe that these non-GAAP financial measures are also useful to investors and analysts in comparing our performance across reporting periods on a consistent basis. The first supplemental financial measure excludes (i) a significant non-cash expense that we believe is not reflective of our general business performance, and for which the accounting requires management judgment and the resulting share-based compensation expense could vary significantly in comparison to other companies and (ii) significant impairment losses and gains on sale from intangible assets, which include our bitcoin. The second set of supplemental financial measures excludes the impact of (i) share-based compensation expense and (ii) impairment losses and gains on sale from intangible assets, which include our bitcoin and the Domain Name Sale, which was outside of our normal business operations. The third set of supplemental financial measures excludes changes resulting from fluctuations in foreign currency exchange rates so that results may be compared to the same period in the prior year on a non-GAAP constant currency basis. We believe the use of these non-GAAP financial measures can also facilitate comparison of our operating results to those of our competitors.

Non-GAAP financial measures are subject to material limitations as they are not in accordance with, or a substitute for, measurements prepared in accordance with GAAP. For example, we expect that share-based compensation expense, which is excluded from the first two non-GAAP financial measures, will continue to be a significant recurring expense over the coming years and is an important part of the compensation provided to certain employees, officers, and directors. We have also excluded impairment losses and gains on sale from intangible assets from the first two non-GAAP financial measures, either of which may occur in future periods as a result of our continued holdings of significant amounts of bitcoin. Our non-GAAP financial measures are not meant to be considered in isolation and should be read only in conjunction with our Consolidated Financial Statements, which have been prepared in accordance with GAAP. We rely primarily on such Consolidated Financial Statements to understand, manage, and evaluate our business performance and use the non-GAAP financial measures only supplementally.

The following is a reconciliation of our non-GAAP income (loss) from operations, which excludes the impact of (i) share-based compensation expense and (ii) impairment losses and gains on sale from intangible assets, which include our digital assets, to its most directly comparable GAAP measures (in thousands) for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Reconciliation of non-GAAP income (loss) from operations:				
(Loss) income from operations	$ (20,271)	$ 4,586	$ (14,015)	$ (10,630)
Share-based compensation expense	2,560	1,834	7,897	7,887
Digital asset impairment losses	44,242	0	44,242	0
Non-GAAP income (loss) from operations	$ 26,531	$ 6,420	$ 38,124	$ (2,743)

The following are reconciliations of our non-GAAP net income and non-GAAP diluted earnings per share, in each case excluding the impact of (i) share-based compensation expense and (ii) impairment losses and gains on sale from intangible assets, which include our digital assets and the Domain Name Sale in the second quarter of 2019, to their most directly comparable GAAP measures (in thousands, except per share data) for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Reconciliation of non-GAAP net income:				
Net (loss) income	$ (14,229)	$ 9,700	$ (10,185)	$ 22,188
Share-based compensation expense, net of tax	2,608	1,932	8,381	7,428
Digital asset impairment losses, net of tax	31,465	0	31,465	0
Gain from Domain Name Sale, net of tax	0	0	0	(21,778)
Non-GAAP net income	$ 19,844	$ 11,632	$ 29,661	$ 7,838
Reconciliation of non-GAAP diluted earnings per share:				
Diluted (loss) earnings per share	$ (1.48)	$ 0.94	$ (1.04)	$ 2.15
Share-based compensation expense, net of tax (per diluted share)	0.27	0.19	0.85	0.72
Digital asset impairment losses, net of tax (per diluted share)	3.27	0.00	3.22	0.00
Gain from Domain Name Sale, net of tax (per diluted share)	0.00	0.00	0.00	(2.11)
Non-GAAP diluted earnings per share	$ 2.06	$ 1.13	$ 3.03	$ 0.76

The following are reconciliations of certain non-GAAP constant currency revenues, cost of revenues, and operating expenses to their most directly comparable GAAP measures (in thousands) for the periods indicated:

	Three Months Ended September 30,					
	GAAP	Foreign Currency Exchange Rate Impact (1)	Non-GAAP Constant Currency (2)	GAAP	GAAP % Change	Non-GAAP Constant Currency % Change (3)
	2020	2020	2020	2019	2020	2020
Product licenses revenues	$ 29,573	$ (341)	$ 29,914	$ 18,972	55.9%	57.7%
Subscription services revenues	8,305	91	8,214	7,894	5.2%	4.1%
Product support revenues	71,352	670	70,682	72,885	-2.1%	-3.0%
Other services revenues	18,178	269	17,909	19,942	-8.8%	-10.2%
Cost of product support revenues	5,679	3	5,676	6,922	-18.0%	-18.0%
Cost of other services revenues	11,856	88	11,768	12,478	-5.0%	-5.7%
Sales and marketing expenses	35,330	(235)	35,565	43,935	-19.6%	-19.1%
Research and development expenses	26,638	95	26,543	27,457	-3.0%	-3.3%
General and administrative expenses	19,733	(69)	19,802	19,900	-0.8%	-0.5%

	GAAP	Foreign Currency Exchange Rate Impact (1)	Non-GAAP Constant Currency (2)	GAAP	GAAP % Change	Non-GAAP Constant Currency % Change (3)
	2019	2019	2019	2018	2019	2019
Product licenses revenues	$ 18,972	$ (921)	$ 19,893	$ 20,264	-6.4%	-1.8%
Subscription services revenues	7,894	(112)	8,006	7,240	9.0%	10.6%
Product support revenues	72,885	(1,400)	74,285	74,463	-2.1%	-0.2%
Other services revenues	19,942	(455)	20,397	20,185	-1.2%	1.1%
Cost of product support revenues	6,922	(78)	7,000	5,079	36.3%	37.8%
Cost of other services revenues	12,478	(320)	12,798	14,674	-15.0%	-12.8%
Sales and marketing expenses	43,935	(990)	44,925	45,429	-3.3%	-1.1%
Research and development expenses	27,457	(205)	27,662	25,829	6.3%	7.1%
General and administrative expenses	19,900	(194)	20,094	20,285	-1.9%	-0.9%

	Nine Months Ended September 30,					
	GAAP	Foreign Currency Exchange Rate Impact (1)	Non-GAAP Constant Currency (2)	GAAP	GAAP % Change	Non-GAAP Constant Currency % Change (3)
	2020	2020	2020	2019	2020	2020
Product licenses revenues	$ 56,973	$ (1,537)	$ 58,510	$ 57,384	-0.7%	2.0%
Subscription services revenues	24,294	9	24,285	22,142	9.7%	9.7%
Product support revenues	212,548	(1,671)	214,219	217,313	-2.2%	-1.4%
Other services revenues	55,601	(229)	55,830	55,957	-0.6%	-0.2%
Cost of product support revenues	19,234	(175)	19,409	21,710	-11.4%	-10.6%
Cost of other services revenues	37,795	(605)	38,400	41,055	-7.9%	-6.5%
Sales and marketing expenses	109,799	(2,340)	112,139	140,968	-22.1%	-20.5%
Research and development expenses	78,606	(370)	78,976	83,436	-5.8%	-5.3%
General and administrative expenses	60,514	(492)	61,006	63,684	-5.0%	-4.2%

	GAAP	Foreign Currency Exchange Rate Impact (1)	Non-GAAP Constant Currency (2)	GAAP	GAAP % Change	Non-GAAP Constant Currency % Change (3)
	2019	2019	2019	2018	2019	2019
Product licenses revenues	$ 57,384	$ (2,861)	$ 60,245	$ 56,857	0.9%	6.0%
Subscription services revenues	22,142	(318)	22,460	22,486	-1.5%	-0.1%
Product support revenues	217,313	(6,186)	223,499	222,554	-2.4%	0.4%
Other services revenues	55,957	(1,870)	57,827	63,824	-12.3%	-9.4%
Cost of product support revenues	21,710	(429)	22,139	14,685	47.8%	50.8%
Cost of other services revenues	41,055	(1,616)	42,671	44,721	-8.2%	-4.6%
Sales and marketing expenses	140,968	(4,056)	145,024	147,742	-4.6%	-1.8%
Research and development expenses	83,436	(1,024)	84,460	74,471	12.0%	13.4%
General and administrative expenses	63,684	(901)	64,585	63,756	-0.1%	1.3%

(1) The "Foreign Currency Exchange Rate Impact" reflects the estimated impact of fluctuations in foreign currency exchange rates on international components of our Consolidated Statements of Operations. It shows the increase (decrease) in material international revenues or expenses, as applicable, from the same period in the prior year, based on comparisons to the prior year quarterly average foreign currency exchange rates. The term "international" refers to operations outside of the United States and Canada.

(2) The "Non-GAAP Constant Currency" reflects the current period GAAP amount, less the Foreign Currency Exchange Rate Impact.

(3) The "Non-GAAP Constant Currency % Change" reflects the percentage change between the current period Non-GAAP Constant Currency amount and the GAAP amount for the same period in the prior year.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our Consolidated Financial Statements, which have been prepared in accordance with GAAP.

The preparation of our Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, and equity, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates, particularly estimates relating to revenue recognition, have a material impact on our Consolidated Financial Statements. Actual results and outcomes could differ from these estimates and assumptions.

The section "Critical Accounting Policies" included in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2019 provides a more detailed explanation of the judgments made and a discussion of our accounting estimates and policies relating to revenue recognition. There have been no significant changes in such estimates and policies since December 31, 2019.

Results of Operations

Comparison of the three and nine months ended September 30, 2020 and 2019

Revenues

Except as otherwise indicated herein, the term "domestic" refers to operations in the United States and Canada and the term "international" refers to operations outside of the United States and Canada.

Product licenses and subscription services revenues. The following table sets forth product licenses and subscription services revenues (in thousands) and related percentage changes for the periods indicated:

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	% Change	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	% Change
Product Licenses and Subscription Services Revenues:						
Product Licenses						
Domestic	$ 22,894	$ 10,618	115.6%	$ 35,557	$ 31,337	13.5%
International	6,679	8,354	-20.1%	21,416	26,047	-17.8%
Total product licenses revenues	29,573	18,972	55.9%	56,973	57,384	-0.7%
Subscription Services						
Domestic	6,176	5,439	13.6%	18,304	16,281	12.4%
International	2,129	2,455	-13.3%	5,990	5,861	2.2%
Total subscription services revenues	8,305	7,894	5.2%	24,294	22,142	9.7%
Total product licenses and subscription services revenues	$ 37,878	$ 26,866	41.0%	$ 81,267	$ 79,526	2.2%

The following table sets forth a summary, grouped by size, of the number of recognized product licenses transactions for the periods indicated:

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Product Licenses Transactions with Recognized Licenses Revenue in the Applicable Period:				
More than $1.0 million in licenses revenue recognized	3	0	4	7
Between $0.5 million and $1.0 million in licenses revenue recognized	6	8	13	12
Total	9	8	17	19
Domestic:				
More than $1.0 million in licenses revenue recognized	3	0	3	5
Between $0.5 million and $1.0 million in licenses revenue recognized	4	5	7	7
Total	7	5	10	12
International:				
More than $1.0 million in licenses revenue recognized	0	0	1	2
Between $0.5 million and $1.0 million in licenses revenue recognized	2	3	6	5
Total	2	3	7	7

The following table sets forth the recognized revenue (in thousands) attributable to product licenses transactions, grouped by size, and related percentage changes for the periods indicated:

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2020	2019	Change	2020	2019	Change
Product Licenses Revenue Recognized in the Applicable Period:						
More than $1.0 million in licenses revenue recognized	$ 13,175	$ 0	n/a	$ 16,370	$ 9,981	64.0%
Between $0.5 million and $1.0 million in licenses revenue recognized	4,194	4,860	-13.7%	8,838	7,914	11.7%
Less than $0.5 million in licenses revenue recognized	12,204	14,112	-13.5%	31,765	39,489	-19.6%
Total	29,573	18,972	55.9%	56,973	57,384	-0.7%
Domestic:						
More than $1.0 million in licenses revenue recognized	13,175	0	n/a	13,175	6,347	107.6%
Between $0.5 million and $1.0 million in licenses revenue recognized	2,865	3,252	-11.9%	4,698	4,794	-2.0%
Less than $0.5 million in licenses revenue recognized	6,854	7,366	-7.0%	17,684	20,196	-12.4%
Total	22,894	10,618	115.6%	35,557	31,337	13.5%
International:						
More than $1.0 million in licenses revenue recognized	0	0	n/a	3,195	3,634	-12.1%
Between $0.5 million and $1.0 million in licenses revenue recognized	1,329	1,608	-17.4%	4,140	3,120	32.7%
Less than $0.5 million in licenses revenue recognized	5,350	6,746	-20.7%	14,081	19,293	-27.0%
Total	$ 6,679	$ 8,354	-20.1%	$ 21,416	$ 26,047	-17.8%

Product licenses revenues increased $10.6 million and decreased $0.4 million for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in the prior year. For the three months ended September 30, 2020 and 2019, product licenses transactions with more than $0.5 million in recognized revenue represented 58.7% and 25.6%, respectively, of our product licenses revenues. For the nine months ended September 30, 2020, our top three product licenses transactions totaled $14.7 million in recognized revenue, or 25.8% of total product licenses revenues, compared to $5.4 million, or 9.4% of total product licenses revenues, for the nine months ended September 30, 2019. Although our product licenses revenues were not materially impacted by the COVID-19 pandemic during the three and nine months ended September 30, 2020, we believe our product licenses revenues may be negatively impacted in future periods until the effects of the pandemic have subsided due to a general increase in the time it takes to close deals in the current depressed macroeconomic environment.

Domestic product licenses revenues. Domestic product licenses revenues increased $12.3 million for the three months ended September 30, 2020, as compared to the same period in the prior year, primarily due to an increase in the number of transactions with more than $1.0 million in recognized revenue (in particular, from one deal that resulted in $9.8 million in recognized revenue), partially offset by a decrease in the average deal size of transactions with less than $0.5 million in recognized revenue and a decrease in the number of transactions with recognized revenue between $0.5 million and $1.0 million. Domestic product licenses revenues increased $4.2 million for the nine months ended September 30, 2020, as compared to the same period in the prior year, primarily due to an increase in the average deal size of transactions with more than $1.0 million in recognized revenue, partially offset by a decrease in the average deal size of transactions with less than $0.5 million in recognized revenue.

International product licenses revenues. International product licenses revenues decreased $1.7 million for the three months ended September 30, 2020, as compared to the same period in the prior year, primarily due to a decrease in the average deal size of transactions with less than $0.5 million in recognized revenue, a $0.3 million unfavorable foreign currency exchange impact, and a decrease in the number of transactions with recognized revenue between $0.5 million and $1.0 million. International product licenses revenues decreased $4.6 million for the nine months ended September 30, 2020, as compared to the same period in the prior year, primarily due to a decrease in the number of transactions with less than $0.5 million in recognized revenue, a $1.5 million unfavorable foreign currency exchange impact, and a decrease in the number of transactions with more than $1.0 million in recognized revenue, partially offset by an increase in the number of transactions with recognized revenue between $0.5 million and $1.0 million.

Subscription services revenues. Subscription services revenues are derived from the MicroStrategy Cloud Environment, a cloud subscription service, that are recognized ratably over the service period in the contract. Subscription services revenues did not materially change for the three months ended September 30, 2020, as compared to the same period in the prior year. Subscription services revenues increased $2.2 million for the nine months ended September 30, 2020, as compared to the same period in the prior year, primarily due to an increase in the use of subscription services by existing customers.

Product support revenues. The following table sets forth product support revenues (in thousands) and related percentage changes for the periods indicated:

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	% Change	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	% Change
Product Support Revenues:						
Domestic	$ 41,645	$ 43,048	-3.3%	$ 126,073	$ 128,234	-1.7%
International	29,707	29,837	-0.4%	86,475	89,079	-2.9%
Total product support revenues	$ 71,352	$ 72,885	-2.1%	$ 212,548	$ 217,313	-2.2%

Product support revenues are derived from providing technical software support and software updates and upgrades to customers. Product support revenues are recognized ratably over the term of the contract, which is generally one year. Product support revenues decreased $1.5 million for the three months ended September 30, 2020, as compared to the same period in the prior year, primarily due to certain customers converting from perpetual product licenses to our subscription services or term product licenses offerings, partially offset by a $0.7 million favorable foreign currency exchange impact. Product support revenues decreased $4.8 million for the nine months ended September 30, 2020, as compared to the same period in the prior year, primarily due to a $1.7 million unfavorable foreign currency exchange impact, a decrease in new product support contracts, and certain customers converting from perpetual product licenses to our subscription services or term product licenses offerings. Although our product support revenues were not materially impacted by the COVID-19 pandemic during the three and nine months ended September 30, 2020, we believe our product support revenues may be negatively impacted in future periods by the overall depressed macroeconomic environment resulting from the COVID-19 pandemic and to the extent that customers require extended payment terms or determine not to renew their product support arrangements as part of their efforts to reduce expenses.

Other services revenues. The following table sets forth other services revenues (in thousands) and related percentage changes for the periods indicated:

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	% Change	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	% Change
Other Services Revenues:						
Consulting						
Domestic	$ 7,384	$ 7,795	-5.3%	$ 24,396	$ 21,095	15.6%
International	9,570	10,243	-6.6%	27,577	29,040	-5.0%
Total consulting revenues	16,954	18,038	-6.0%	51,973	50,135	3.7%
Education	1,224	1,904	-35.7%	3,628	5,822	-37.7%
Total other services revenues	$ 18,178	$ 19,942	-8.8%	$ 55,601	$ 55,957	-0.6%

Consulting revenues. Consulting revenues are derived from helping customers plan and execute the deployment of our software. Consulting revenues decreased $1.1 million for the three months ended September 30, 2020, as compared to the same period in the prior year, primarily due to a decrease in billable travel and entertainment expenditures and a decrease in average bill rates, partially offset by an increase in billable hours worldwide. Consulting revenues increased $1.8 million for the nine months ended September 30, 2020, as compared to the same period in the prior year, primarily due to an increase in billable hours worldwide, partially offset by a decrease in average bill rates and a decrease in billable travel and entertainment expenditures. Although our consulting revenues were not materially impacted by the COVID-19 pandemic during the three and nine months ended September 30, 2020, we believe our consulting revenues may be negatively impacted in future periods by the overall depressed macroeconomic environment resulting from the COVID-19 pandemic and as our customers continue to operate in remote work environments and aim to reduce expenses.

Education revenues. Education revenues are derived from the education and training that we provide to our customers to enhance their ability to fully utilize the features and functionality of our software. These offerings include self-tutorials, custom course development, joint training with customers' internal staff, and standard course offerings, with pricing dependent on the specific offering delivered. Education revenues decreased $0.7 million for the three months ended September 30, 2020, as compared to the same period in the prior year, primarily due to a reduction in the average sales price of our education offerings. Education revenues decreased $2.2 million for the nine months ended September 30, 2020, as compared to the same period in the prior year, primarily due to a reduction in the average sales price of our education offerings and education offerings that we made available at no charge for a limited time period during the first half of 2020 in response to the COVID-19 pandemic.

Costs and Expenses

Cost of revenues. The following table sets forth cost of revenues (in thousands) and related percentage changes for the periods indicated:

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	% Change	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	% Change
Cost of Revenues:						
Product licenses and subscription services:						
Product licenses	$ 545	$ 526	3.6%	$ 1,729	$ 1,597	8.3%
Subscription services	3,656	3,889	-6.0%	11,512	10,976	4.9%
Total product licenses and subscription services	4,201	4,415	-4.8%	13,241	12,573	5.3%
Product support	5,679	6,922	-18.0%	19,234	21,710	-11.4%
Other services:						
Consulting	10,331	11,102	-6.9%	31,927	35,996	-11.3%
Education	1,525	1,376	10.8%	5,868	5,059	16.0%
Total other services	11,856	12,478	-5.0%	37,795	41,055	-7.9%
Total cost of revenues	$ 21,736	$ 23,815	-8.7%	$ 70,270	$ 75,338	-6.7%

Cost of product licenses revenues. Cost of product licenses revenues consists of referral fees paid to channel partners, the costs of product manuals and media, and royalties paid to third-party software vendors. Cost of product licenses revenues did not materially change for the three and nine months ended September 30, 2020, as compared to the same periods in the prior year.

Cost of subscription services revenues. Cost of subscription services revenues consists of equipment, facility and other related support costs, and personnel and related overhead costs. Subscription services headcount decreased 18.2% to 54 at September 30, 2020 from 66 at September 30, 2019. Cost of subscription services revenues did not materially change for the three and nine months ended September 30, 2020, as compared to the same periods in the prior year.

Cost of product support revenues. Cost of product support revenues consists of personnel and related overhead costs, including those under our Enterprise Support program. Our Enterprise Support program utilizes primarily consulting personnel to provide product support to our customers at our discretion. Compensation related to personnel providing Enterprise Support services is reported as cost of product support revenues. Product support headcount decreased 28.6% to 165 at September 30, 2020 from 231 at September 30, 2019. Cost of product support revenues decreased $1.2 million for the three months ended September 30, 2020, as compared to the same period in the prior year, primarily due to a $1.6 million decrease in compensation and related costs due to a decrease in product support staffing levels, partially offset by an $0.7 million increase in non-product support personnel providing Enterprise Support services. Cost of product support revenues decreased $2.5 million for the nine months ended September 30, 2020, as compared to the same period in the prior year, primarily due to a $2.1 million decrease in compensation and related costs due to a decrease in product support staffing levels, partially offset by a $0.6 million increase in non-product support personnel providing Enterprise Support services.

Cost of consulting revenues. Cost of consulting revenues consists of personnel and related overhead costs, excluding those under our Enterprise Support program which are allocated to cost of product support revenues. Consulting headcount increased 1.8% to 397 at September 30, 2020 from 390 at September 30, 2019. Cost of consulting revenues decreased $0.8 million for the three months ended September 30, 2020, as compared to the same period in the prior year, primarily due to a $1.4 million decrease in travel and entertainment expenditures as a result of restrictions placed on non-essential business travel during the COVID-19 pandemic and a $0.7 million increase in consulting personnel providing Enterprise Support services, partially offset by a $0.9 million increase in compensation and related costs due to an increase in consulting staffing levels. Cost of consulting revenues decreased $4.1 million for the nine months ended September 30, 2020, as compared to the same period in the prior year, primarily due to a $3.7 million decrease in travel and entertainment expenditures as a result of restrictions placed on non-essential business travel during the COVID-19 pandemic and a $0.5 million increase in consulting personnel providing Enterprise Support services.

Cost of education revenues. Cost of education revenues consists of personnel and related overhead costs and technology infrastructure costs. Education headcount was 38 as of both September 30, 2020 and 2019. Cost of education revenues did not materially change for the three months ended September 30, 2020, as compared to the same period in the prior year. Cost of education revenues increased $0.8 million for the nine months ended September 30, 2020, as compared to the same period in the prior year, primarily due to a $0.7 million increase in technology infrastructure costs associated with education offerings that we made available at no charge for a limited time period during the first half of 2020 in response to the COVID-19 pandemic.

Sales and marketing expenses. Sales and marketing expenses consist of personnel costs, commissions, office facilities, travel, advertising, public relations programs, and promotional events, such as trade shows, seminars, and technical conferences. Sales and marketing headcount decreased 19.6% to 495 at September 30, 2020 from 616 at September 30, 2019. The following table sets forth sales and marketing expenses (in thousands) and related percentage changes for the periods indicated:

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2020	2019	Change	2020	2019	Change
Sales and marketing expenses	$ 35,330	$ 43,935	-19.6%	$ 109,799	$ 140,968	-22.1%

Sales and marketing expenses decreased $8.6 million for the three months ended September 30, 2020, as compared to the same period in the prior year, primarily due to a $3.0 million decrease in employee salaries due to a decrease in staffing levels, a $2.1 million decrease in travel and entertainment expenditures as a result of restrictions placed on non-essential business travel during the COVID-19 pandemic, a $1.5 million decrease in marketing and advertising costs as we transitioned from in-person to virtual marketing events, a $1.4 million decrease in variable compensation, a $0.6 million decrease in facility and other related support costs, and a $0.6 million decrease in recruiting costs.

Sales and marketing expenses decreased $31.2 million for the nine months ended September 30, 2020, as compared to the same period in the prior year, primarily due to a $8.5 million decrease in variable compensation, which includes the cancellation of a sales employee awards event as a result of the COVID-19 pandemic, a $7.6 million decrease in employee salaries due to a decrease in staffing levels, a $5.6 million decrease in marketing and advertising costs as we transitioned from in-person to virtual marketing events, a $5.5 million decrease in travel and entertainment expenditures as a result of restrictions placed on non-essential business travel during the COVID-19 pandemic, a $1.8 million decrease in facility and other related support costs, a $0.8 million decrease in subcontractor costs, a $0.8 million net decrease in share-based compensation expense, and a $0.7 million decrease in recruiting costs. The $0.8 million net decrease in share-based compensation expense is primarily due to the forfeiture of certain stock options, partially offset by the grant of additional awards under the 2013 Equity Plan. Included in sales and marketing expenses for the nine months ended September 30, 2020 is an aggregate $2.3 million favorable foreign currency exchange impact.

We expect sales and marketing expenses in the near term will be lower compared to prior year periods as we continue to transition from in-person to more virtual sales and marketing practices and streamline our team to sell in the current depressed macroeconomic environment.

Research and development expenses. Research and development expenses consist of the personnel costs for our software engineering personnel, depreciation of equipment, and other related costs. Due to the pace of our software development efforts and frequency of our software releases, our software development costs are expensed as incurred. We do not expect to capitalize material software development costs in the near term. Research and development headcount decreased 14.1% to 666 at September 30, 2020 from 775 at September 30, 2019. The following table summarizes research and development expenses (in thousands) and related percentage changes for the periods indicated:

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2020	2019	Change	2020	2019	Change
Research and development expenses	$ 26,638	$ 27,457	-3.0%	$ 78,606	$ 83,436	-5.8%

Research and development expenses decreased $0.8 million for the three months ended September 30, 2020, as compared to the same period in the prior year, primarily due to a $0.8 million decrease in recruiting costs.

Research and development expenses decreased $4.8 million for the nine months ended September 30, 2020, as compared to the same period in the prior year, primarily due to a $2.0 million decrease in compensation and related costs due to a decrease in staffing levels and certain COVID-19-related employer payroll tax exemptions in the Asia Pacific region, a $1.3 million decrease in recruiting costs, a $0.6 million decrease in consulting and advisory costs, and a $0.5 million decrease in employee relations expenses.

We expect research and development expenses in the near term will be lower compared to prior year periods as a result of our recent personnel reductions.

General and administrative expenses. General and administrative expenses consist of personnel and related overhead costs, and other costs of our executive, finance, human resources, information systems, and administrative departments, as well as third-party consulting, legal, and other professional fees. General and administrative headcount decreased 23.4% to 258 at September 30, 2020 from 337 at September 30, 2019. The following table sets forth general and administrative expenses (in thousands) and related percentage changes for the periods indicated:

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2020	2019	Change	2020	2019	Change
General and administrative expenses	$ 19,733	$ 19,900	-0.8%	$ 60,514	$ 63,684	-5.0%

General and administrative expenses did not materially change for the three months ended September 30, 2020, as compared to the same period in the prior year.

General and administrative expenses decreased $3.2 million for the nine months ended September 30, 2020, as compared to the same period in the prior year, primarily due to a $1.4 million decrease in facility and other related support costs, a $1.1 million decrease in travel and entertainment expenditures as a result of restrictions placed on non-essential business travel during the COVID-19 pandemic, a $0.7 million decrease in recruiting costs, and a $0.6 million decrease in costs related to our corporate aircraft, partially offset by a $0.9 million net increase in share-based compensation expense. The $0.9 million net increase in share-based compensation expense is primarily due to the grant of additional awards under the 2013 Equity Plan, partially offset by certain awards becoming fully vested and the forfeiture of certain stock options.

We expect general and administrative expenses in the near term will be lower compared to prior year periods as a result of our recent personnel reductions.

Digital asset impairment losses. Digital asset impairment losses are recognized when the carrying value of our digital assets exceeds their lowest fair value at any time since their acquisition. Impaired digital assets are written down to fair value at the time of impairment, and such impairment loss cannot be recovered for any subsequent increases in fair value. The following table sets forth digital asset impairment losses (in thousands) and related percentage changes for the periods indicated:

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2020	2019	Change	2020	2019	Change
Digital asset impairment losses	$ 44,242	$ 0	n/a	$ 44,242	$ 0	n/a

We did not sell any of our digital assets during the three and nine months ended September 30, 2020.

Other (Expense) Income, Net

For the three and nine months ended September 30, 2020, other expense, net, of $3.0 million and $4.5 million, respectively, were comprised primarily of foreign currency transaction net losses. For the three months ended September 30, 2019, other income, net, of $1.9 million was comprised primarily of foreign currency transaction net gains. For the nine months ended September 30, 2019, other income, net, of $30.7 million was comprised primarily of a $29.8 million gain from the Domain Name Sale in the second quarter of 2019 and foreign currency transaction net gains.

(Benefit from) Provision for Income Taxes

In determining our tax provision or benefit from income taxes, we estimate an annual effective tax rate for the full fiscal year and apply that rate to our income or loss before income taxes. We also record discrete items in each respective period as appropriate. The estimated effective tax rate is subject to fluctuation based on the level and mix of earnings and losses by tax jurisdiction, foreign tax rate differentials, and the relative impact of permanent book to tax differences (e.g., non-deductible expenses). Each quarter, a cumulative adjustment is recorded for any fluctuations in the estimated annual effective tax rate as compared to the prior quarter. As a result of these factors, and due to potential changes in our period-to-period results, fluctuations in our effective tax rate and respective tax provisions or benefits may occur.

For the nine months ended September 30, 2020, we recorded a benefit from income taxes of $5.7 million that resulted in an effective tax rate of 36.0%, as compared to a provision for income taxes of $6.4 million that resulted in an effective tax rate of 22.4% for the nine months ended September 30, 2019. The change in the effective tax rate in 2020 is mainly due to certain discrete items and the change in the expected proportion of U.S. versus foreign income between periods.

As of September 30, 2020, we had no U.S. federal NOL carryforwards and we estimated that we had $5.8 million of foreign NOL carryforwards. As of September 30, 2020, we estimated that we had foreign NOL carryforwards, other temporary differences and carryforwards, and credits that resulted in deferred tax assets, net of valuation allowances and deferred tax liabilities, of $33.5 million.

As of September 30, 2020, we had a valuation allowance of $2.1 million related to certain foreign tax credit carryforwards that, in our present estimation, more likely than not will not be realized. If we are unable to regain profitability in future periods, we may be required to increase the valuation allowance against our deferred tax assets, which could result in a charge that would materially adversely affect net income in the period in which the charge is incurred. We will continue to regularly assess the realizability of deferred tax assets.

Deferred Revenue and Advance Payments

Deferred revenue and advance payments represent amounts received or due from our customers in advance of our transferring our software or services to the customer. Revenue is subsequently recognized in the period(s) in which control of the software or services is transferred to the customer.

The following table summarizes deferred revenue and advance payments (in thousands), as of:

	September 30, 2020	December 31, 2019	September 30, 2019
Current:			
Deferred product licenses revenue	$ 186	$ 481	$ 470
Deferred subscription services revenue	19,535	16,561	12,812
Deferred product support revenue	134,632	161,670	139,402
Deferred other services revenue	6,492	8,395	7,560
Total current deferred revenue and advance payments	$ 160,845	$ 187,107	$ 160,244
Non-current:			
Deferred product licenses revenue	$ 140	$ 293	$ 368
Deferred subscription services revenue	5,988	97	142
Deferred product support revenue	4,759	3,417	3,440
Deferred other services revenue	770	537	537
Total non-current deferred revenue and advance payments	$ 11,657	$ 4,344	$ 4,487
Total current and non-current:			
Deferred product licenses revenue	$ 326	$ 774	$ 838
Deferred subscription services revenue	25,523	16,658	12,954
Deferred product support revenue	139,391	165,087	142,842
Deferred other services revenue	7,262	8,932	8,097
Total current and non-current deferred revenue and advance payments	$ 172,502	$ 191,451	$ 164,731

Total deferred revenue and advance payments decreased $18.9 million as of September 30, 2020, as compared to December 31, 2019, primarily due to the recognition of previously deferred product support and other services revenues, partially offset by an increase in deferred revenues from new subscription services contracts, including certain multi-year arrangements. Total deferred revenue and advance payments increased $7.8 million as of September 30, 2020, as compared to September 30, 2019, primarily due to an increase in deferred revenue from new subscription services contracts, including certain multi-year arrangements and customers converting from product licenses to our subscription services offerings, partially offset by decreases in deferred product support from certain customers converting from perpetual product licenses to term product licenses or subscription services offerings and the recognition of previously deferred other services revenues. Included in our international deferred revenue balances at September 30, 2020 is a $2.2 million favorable foreign currency impact from the general weakening of the U.S. dollar compared to the same period in the prior year.

We expect to recognize approximately $160.8 million of deferred revenue and advance payments over the next 12 months. However, the timing and ultimate recognition of our deferred revenue and advance payments depend on our satisfaction of various performance obligations, and the amount of deferred revenue and advance payments at any date should not be considered indicative of revenues for any succeeding period.

Liquidity and Capital Resources

Liquidity. Our principal sources of liquidity are cash and cash equivalents and on-going collection of our accounts receivable. Cash and cash equivalents may include holdings in bank demand deposits, money market instruments, certificates of deposit, and U.S. Treasury securities. We have also periodically invested a portion of our cash in short-term investments with stated maturity dates between three months and one year from the purchase date. In the third quarter of 2020, we invested a significant portion of our cash in bitcoin. As discussed in Note 1.d, Summary of Significant Accounting Policies – Digital Assets, to our Consolidated Financial Statements, our bitcoin are classified as indefinite-lived intangible assets.

As of September 30, 2020 and December 31, 2019, the amount of cash and cash equivalents and short-term investments held by our U.S. entities was $19.0 million and $289.4 million, respectively, and by our non-U.S. entities was $33.7 million and $276.2 million, respectively. We earn a significant amount of our revenues outside the United States. We repatriated foreign earnings and profits of $151.3 million during 2019 and $186.6 million during 2020. As of September 30, 2020, the remaining balance of our undistributed foreign earnings and profits earned prior to December 31, 2019 is estimated to be $94.8 million. We no longer intend to permanently reinvest our foreign earnings and profits. After taking into account the Transition Tax and GILTI tax, we expect that the repatriations during 2019 and 2020 generated only an immaterial U.S. tax expense related to U.S. state income taxes.

We believe that existing cash and cash equivalents held by us and cash and cash equivalents anticipated to be generated by us are sufficient to meet working capital requirements, anticipated capital expenditures, and contractual obligations for at least the next 12 months. As of September 30, 2020, we held approximately 38,250 bitcoins. We do not believe we will need to sell any of our bitcoins within the next twelve months to meet our working capital requirements, although we may from time to time sell bitcoins as part of treasury management operations, including to increase our cash balances. The Bitcoin market historically has been characterized by significant volatility in its price, limited liquidity and trading volumes compared to sovereign currencies markets, relative anonymity, a developing regulatory landscape, susceptibility to market abuse and manipulation, and various other risks inherent in its entirely electronic, virtual form and decentralized network. During times of instability in the Bitcoin market, we may not be able to sell our bitcoins at reasonable prices or at all. As a result, our bitcoins are less liquid than our existing cash and cash equivalents and may not be able to serve as a source of liquidity for us to the same extent as cash and cash equivalents. In addition, upon sale of our bitcoin, we may incur additional taxes related to any realized gains or we may incur capital losses as to which the tax deduction may be limited.

The following table sets forth a summary of our cash flows (in thousands) and related percentage changes for the periods indicated:

	Nine Months Ended September 30,		%
	2020	2019	Change
Net cash provided by operating activities	$ 28,297	$ 52,323	-45.9%
Net cash (used in) provided by investing activities	$ (316,204)	$ 259,488	221.9%
Net cash used in financing activities	$ (118,864)	$ (42,802)	177.7%

Net cash provided by operating activities. The primary source of our cash provided by operating activities is cash collections of our accounts receivable from customers following the sales and renewals of our product licenses and product support, as well as consulting, education, and subscription services, and, in the nine months ended September 30, 2019, consideration received from the Domain Name Sale, net of related income taxes and immaterial transaction costs. Our primary uses of cash in operating activities are for personnel-related expenditures for software development, personnel-related expenditures for providing consulting, education, and subscription services, and for sales and marketing costs, general and administrative costs, and income taxes. Non-cash items to further reconcile net (loss) income to net cash provided by operating activities consist primarily of depreciation and amortization, reduction in the carrying amount of ROU assets, credit losses and sales allowances, deferred taxes, share-based compensation expense, and digital asset impairment losses.

Net cash provided by operating activities decreased $24.0 million for the nine months ended September 30, 2020, as compared to the same period in the prior year, due to a $32.4 million decrease in net income and a $31.8 million decrease from changes in operating assets and liabilities, partially offset by a $40.1 million increase from changes in non-cash items. Included in net cash provided by operating activities for the nine months ended September 30, 2019 is a gain of $21.8 million from the Domain Name Sale, net of related income taxes and immaterial transaction costs.

Net cash (used in) provided by investing activities. The changes in net cash (used in) provided by investing activities relate to purchases of digital assets, purchases and redemptions of short-term investments, and expenditures on property and equipment. Net cash used in investing activities was $316.2 million for the nine months ended September 30, 2020, while net cash provided by investing activities was $259.5 million for the nine months ended September 30, 2019. The change in net cash (used in) provided by investing activities was due to a $469.5 million decrease in proceeds from the redemption of short-term investments and a $425.0 million purchase of bitcoins, partially offset by a $310.6 million decrease in purchases of short-term investments and a $8.2 million decrease in purchases of property and equipment.

Net cash used in financing activities. The changes in net cash (used in) provided by financing activities primarily relate to the purchase of treasury stock and the exercise of stock options under the 2013 Equity Plan. Net cash used in financing activities increased $76.1 million for the nine months ended September 30, 2020, as compared to the same period in the prior year, due to a $74.2 million increase in purchases of treasury stock and a $1.8 million decrease in proceeds from the exercise of stock options under the 2013 Equity Plan.

Share repurchases. See **"**Part II. Item 2. Unregistered Sales of Equity Securities and Use of Proceeds" of this Quarterly Report and Note 8, Treasury Stock, to the Consolidated Financial Statements for further information.

Contractual obligations.

The following table shows future minimum payments under noncancellable operating leases and purchase agreements with initial terms of greater than one year and anticipated payments related to the Transition Tax resulting from the Tax Act, based on the expected due dates of the various installments as of September 30, 2020 (in thousands):

	Payments due by period ended September 30,				
	Total	**2021**	**2022-2023**	**2024-2025**	**Thereafter**
Contractual Obligations:					
Operating leases	$ 146,780	$ 16,878	$ 32,665	$ 27,679	$ 69,558
Purchase obligations	12,467	6,392	4,007	1,365	703
Transition Tax	28,039	2,951	8,486	16,602	0
Total	$ 187,286	$ 26,221	$ 45,158	$ 45,646	$ 70,261

Unrecognized tax benefits. As of September 30, 2020, we had $2.7 million of total gross unrecognized tax benefits, including accrued interest, recorded in "Other long-term liabilities." The timing of any payments that could result from these unrecognized tax benefits will depend on a number of factors, and accordingly the amount and period of any future payments cannot be estimated. We do not expect any significant tax payments related to these obligations during 2020.

Off-balance sheet arrangements. As of September 30, 2020, we did not have any off-balance sheet arrangements that had a material impact on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

Recent Accounting Standards

See Note 2, Recent Accounting Standards, to the Consolidated Financial Statements for further information.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion about our market risk exposures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements.

We are exposed to the impact of both market price changes in bitcoin and foreign currency fluctuations.

Market Price Risk of Bitcoin. We have invested a significant portion of our cash in bitcoin and, as of September 30, 2020, we held approximately 38,250 bitcoins. The carrying value of our bitcoins as of September 30, 2020 was $380.8 million, which reflects cumulative impairments of $44.2 million, on our Consolidated Balance Sheet. As discussed in Note 1, Summary of Significant Accounting Policies, to the Consolidated Financial Statements, we account for our bitcoin as indefinite-lived intangible assets, which are subject to impairment losses if the fair value of our bitcoin decreases below their carrying value at any time since their acquisition. Impairment losses cannot be recovered for any subsequent increase in fair value. For example, the market price of one bitcoin in our principal market ranged from $8,905.84 - $12,486.61 during the three months ended September 30, 2020, but the carrying value of each bitcoin we held at the end of the reporting period reflects the lowest price of one bitcoin quoted on the active exchange at any time since its acquisition. Therefore, negative swings in the market price of bitcoin could have a material impact on our earnings and on the carrying value of our digital assets. Positive swings in the market price of bitcoin are not reflected in the carrying value of our digital assets and impact earnings only when the bitcoin is sold at a gain. For the three months ended September 30, 2020, we incurred an impairment loss of $44.2 million on our bitcoin. As of October 26, 2020, at 4:00 p.m. EDT, the market price of one bitcoin in our principal market was $13,022.99.

Foreign Currency Risk. We conduct a significant portion of our business in currencies other than the U.S. dollar, the currency in which we report our Consolidated Financial Statements. International revenues accounted for 38.2% and 43.1% of our total revenues for the three months ended September 30, 2020 and 2019, respectively, and 41.0% and 43.2% of our total revenues for the nine months ended September 30, 2020 and 2019, respectively. We anticipate that international revenues will continue to account for a significant portion of our total revenues. The functional currency of each of our foreign subsidiaries is generally the local currency.

Assets and liabilities of our foreign subsidiaries are translated into U.S. dollars at exchange rates in effect as of the applicable Balance Sheet date and any resulting translation adjustments are included as an adjustment to stockholders' equity. Revenues and expenses generated from these subsidiaries are translated at average monthly exchange rates during the quarter in which the transactions occur. Gains and losses from transactions in local currencies are included in net income (loss).

As a result of transacting in multiple currencies and reporting our Consolidated Financial Statements in U.S. dollars, our operating results may be adversely impacted by currency exchange rate fluctuations in the future. The impact of foreign currency exchange rate fluctuations on current and comparable periods is described in the "Non-GAAP Financial Measures" section under "Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

We cannot predict the effect of exchange rate fluctuations upon our future results. We attempt to minimize our foreign currency risk by converting our excess foreign currency held in foreign jurisdictions to U.S. dollar-denominated cash and investment accounts.

As of September 30, 2020 and December 31, 2019, a 10% adverse change in foreign currency exchange rates versus the U.S. dollar would have decreased our aggregate reported cash and cash equivalents and short-term investments by 3.2% and 0.3%, respectively. If average exchange rates during the nine months ended September 30, 2020 had changed unfavorably by 10%, our revenues for the nine months ended September 30, 2020 would have decreased by 3.7%. During the nine months ended September 30, 2020, our revenues were lower by 1.0% as a result of a 1.6% unfavorable change in weighted average exchange rates, as compared to the same period in the prior year.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their control objectives. Based on the evaluation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Controls. During the three months ended September 30, 2020, we implemented new internal controls surrounding the acquisition, safeguarding, accounting, and reporting of our digital assets. Other than these new controls over our digital assets, there have been no significant changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We are continually monitoring and assessing the effect of the COVID-19 pandemic on our internal control over financial reporting to minimize the impact on the design and operating effectiveness of such internal control. We have not experienced any material impact on our internal control over financial reporting despite the fact that many of our employees are working remotely as a result of the COVID-19 pandemic.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various legal proceedings arising in the normal course of business. Although the outcomes of these legal proceedings are inherently difficult to predict, we do not expect the resolution of these legal proceedings to have a material adverse effect on our financial position, results of operations, or cash flows.

Item 1A. Risk Factors

You should carefully consider the risks described below before making an investment decision. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

If any of the following risks occurs, our business, financial condition, or results of operations could be materially adversely affected. In such case, the market price of our class A common stock could decline, and you may lose all or part of your investment.

Our quarterly operating results, revenues, and expenses may fluctuate significantly, which could have an adverse effect on the market price of our stock

For many reasons, including those described below, our operating results, revenues, and expenses have varied in the past and may vary significantly in the future from quarter to quarter. These fluctuations could have an adverse effect on the market price of our class A common stock.

Fluctuations in Quarterly Operating Results. Our quarterly operating results may fluctuate, in part, as a result of:

- the size, timing, volume, and execution of significant orders and shipments;
- the mix of our offerings ordered by customers, including product licenses and cloud subscriptions, which can affect the extent to which revenue is recognized immediately or over future quarterly periods;
- the timing of the release or delivery of new or enhanced offerings, which may affect the period in which we recognize revenue;
- fluctuations in the price of bitcoin, in which we have made significant investments, and potentially material impairment charges that may be associated therewith;
- the timing of announcements of new offerings by us or our competitors;
- changes in our pricing policies or those of our competitors;
- market acceptance of new and enhanced versions of our offerings;
- the length of our sales cycles;
- seasonal or other buying patterns of our customers;
- changes in our operating expenses;
- the impact of the COVID-19 pandemic, or other future infectious disease pandemics, on the global economy and on our customers, suppliers, employees, and business;
- the timing of research and development projects and the capitalization of software development costs;
- personnel changes;
- our use of channel partners;
- utilization of our consulting and education services, which can be affected by delays or deferrals of customer implementation of our software;
- fluctuations in foreign currency exchange rates;
- bilateral or multilateral trade tensions, which could affect the reception for our offerings in particular foreign markets;
- our profitability and expectations for future profitability and their effect on our deferred tax assets and net income for the period in which any adjustment to our net deferred tax asset valuation allowance may be made;

- increases or decreases in our liability for unrecognized tax benefits; and
- changes in customer decision-making processes or customer budgets.

Limited Ability to Adjust Expenses. We base our operating expense budgets on expected revenue trends and strategic objectives. Many of our expenses, such as office leases and certain personnel costs, are relatively fixed. We may be unable to adjust spending quickly enough to offset any unexpected revenue shortfall. Accordingly, any shortfall in revenue may cause significant variation in operating results in any quarter. For example, if our revenues in the future are not sufficient to offset our operating expenses, or we are unable to adjust our operating expenses in a timely manner in response to any shortfall in anticipated revenue, we may incur operating losses.

Based on the above factors, we believe quarter-to-quarter comparisons of our operating results are not a good indication of our future performance. It is possible that in one or more future quarters, our operating results may be below the expectations of public market analysts and investors. In that event, the market price of our class A common stock may fall.

The market price of our class A common stock has been and may continue to be volatile

The market price of our class A common stock historically has been volatile and may continue to be volatile. The market price of our class A common stock may fluctuate widely in response to various factors, some of which are beyond our control. These factors include, but are not limited to:

- quarterly variations in our results of operations or those of our competitors;
- announcements about our earnings that are not in line with analyst expectations, the likelihood of which may be enhanced because it is our policy not to give guidance relating to our anticipated financial performance in future periods;
- announcements by us or our competitors of acquisitions, dispositions, new offerings, significant contracts, commercial relationships, or capital commitments;
- fluctuations in the price of bitcoin, in which we have made significant investments, and announcements about our transactions in bitcoin;
- the emergence of new sales channels in which we are unable to compete effectively;
- our ability to develop, market, and deliver new and enhanced offerings on a timely basis;
- commencement of, or our involvement in, litigation;
- any major change in our Board of Directors, management, or governing documents;
- changes in government regulations or in the status of our regulatory approvals;
- recommendations by securities analysts or changes in earnings estimates and our ability to meet those estimates;
- investor perception of our Company;
- announcements by our competitors of their earnings that are not in line with analyst expectations;
- the volume of shares of our class A common stock available for public sale;
- sales or purchases of stock by us or by our stockholders and issuances of awards under our stock incentive plan;
- short sales, hedging, and other derivative transactions involving shares of our class A common stock; and
- general economic conditions and slow or negative growth of related markets, including as a result of the COVID-19 pandemic.

In addition, the stock market in general, and the market for technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies in those markets. These broad market and industry factors may seriously harm the market price of our class A common stock, regardless of our actual operating performance.

We may not be able to regain or increase profitability in the future

We generated net loss for the nine months ended September 30, 2020, and we may not be able to regain or increase profitability on a quarterly or annual basis in the future. If our revenues are not sufficient to offset our operating expenses, or we are unable to adjust our operating expenses in a timely manner in response to any shortfall in anticipated revenue, we may incur operating losses in future periods. As a result, our business, results of operations, and financial condition may be materially adversely affected.

As of September 30, 2020, we had $33.5 million of deferred tax assets, net of a $2.1 million valuation allowance. If we are unable to regain or increase profitability in the future, we may be required to increase the valuation allowance against these deferred tax assets, which could result in a charge that would materially adversely affect net income in the period in which the charge is incurred.

We face risks related to the COVID-19 pandemic that could significantly disrupt or materially adversely affect our business and operating results.

The COVID-19 pandemic has had a significant adverse impact on global commercial activity and has created significant volatility in financial markets. Many governmental authorities have instituted quarantines, work-from-home directives, shelter-in-place orders, social distancing mandates, travel restrictions, border closures, limitations on public gatherings, and closures of or operational limitations on non-essential businesses, which are adversely impacting a number of industries such as travel, leisure, hospitality, and retail. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the global economy and consumer confidence. The COVID-19 pandemic could have a sustained adverse impact on economic and market conditions and trigger a period of prolonged global economic slowdown, which could decrease technology spending, adversely affect demand for our offerings, and harm our business and operating results.

Significant uncertainty exists concerning the impact of the COVID-19 pandemic on our customers' and prospects' business and operations in future periods. Our product licenses revenues may be negatively impacted in future periods until the effects of the pandemic have subsided due to a general increase in the time it takes to close deals in the current depressed macroeconomic environment. Our product support revenues may also be negatively impacted in future periods by the overall depressed macroeconomic environment and to the extent that customers require extended payment terms or determine not to renew their product support arrangements as part of their efforts to reduce expenses. Similarly, we may experience declines in our consulting revenues in future periods due to the overall depressed macroeconomic environment and as our customers continue to operate in remote work environments and aim to reduce expenses. The uncertainty related to COVID-19 may also result in increased volatility in the financial projections we use as the basis for estimates and assumptions used in our financial statements.

Furthermore, some of our customers have experienced increased competition and significant adverse impacts from the COVID-19 pandemic and related containment and mitigation measures. A significant economic downturn, the intensification of competition, or adverse effects of the COVID-19 pandemic may cause organizations to reduce their expenditures in general or specifically reduce their spending on information technology ("IT"). Customers may delay or cancel IT projects or seek to lower their costs by renegotiating vendor contracts. Customers with excess IT resources may choose to develop in-house software solutions rather than obtain those solutions from us. In addition, our competitors may respond to challenging market conditions by lowering prices and attempting to lure away our customers.

In light of the uncertain and rapidly evolving situation relating to COVID-19, we have taken precautionary measures intended to reduce the risk of the virus to our employees, customers, and communities in which we operate. We have established remote working arrangements for our employees, placed restrictions on non-essential business travel, and cancelled or shifted our customer, employee, and industry events to a virtual-only format for the foreseeable future. We expect that many of our customers and partners are doing the same. As a result of these precautionary measures, there could be a negative impact on our sales, marketing, and customer success efforts, continued delays in our sales cycles, delays in the release or delivery of new or enhanced offerings or unexpected changes to such offerings, or operational or other challenges, any of which could significantly disrupt our business and operating results. For example, our shift to creating virtual customer, employee, and industry events may not be successful, and we may not be able to showcase our products as effectively or generate the same customer interest, opportunities, and leads through virtual events as we have historically done through in-person events. Additionally, while we have not experienced any material disruptions to date, our technological systems or infrastructure may not be equipped to facilitate effective remote working arrangements or operate in compliance with all laws and regulations for our employees in the short or long term.

Considerable uncertainty still surrounds COVID-19 and its potential long-term economic effects, as well as the effectiveness of any responses taken by government authorities and businesses. Although we continue to actively monitor the situation and may take further actions as may be required by government authorities or as more information and public health guidance become available, the full extent to which COVID-19 impacts our business and operating results will depend on future developments, including the duration, spread, severity, and potential recurrence of the COVID-19 pandemic, impact on our customers and our sales cycles, our ability to generate new business leads, impact on our customer, employee, and industry events, and effect on our vendors, all of which are highly uncertain and cannot be predicted.

In addition, the effects of the COVID-19 pandemic may heighten many of the other risks described in this "Risk Factors" section.

If the market for analytics software fails to grow as we expect or if businesses fail to adopt our offerings, our business, operating results, and financial condition could be materially adversely affected

Our revenue is derived from sales of our analytics software and related services, which we expect to account for a large portion of our revenues for the foreseeable future. Although demand for analytics software has continued to grow, the market for analytics offerings continues to evolve. Resistance from consumer and privacy groups to commercial collection, use, and sharing of data on spending patterns and other personal behavior has grown in recent years and our customers, potential customers, or the general public may perceive that use of our analytics software could violate individual privacy rights. In addition, increasing government restrictions on the collection, use, and transfer of personal data could impair the further growth of the market for analytics software, especially in foreign markets. We cannot be sure that this market will continue to grow or, even if it does grow, that businesses will adopt our solutions.

We have spent, and intend to keep spending, considerable resources to educate potential customers about analytics offerings in general and our offerings in particular. However, we cannot be sure that these expenditures will help any of our offerings achieve any additional market acceptance. If the market fails to grow or grows more slowly than we currently expect or businesses fail to adopt our offerings, our business, operating results, and financial condition could be materially adversely affected.

Our offerings face intense competition, which may lead to lower prices for our offerings, reduced gross margins, loss of market share, and reduced revenue

The analytics market is highly competitive and subject to rapidly changing technology paradigms. Within the analytics space, we compete with many different software vendors, including IBM, Microsoft, Oracle, Qlik, Salesforce, and SAP. Our future success depends on the effectiveness with which we can differentiate our offerings and compete with these vendors and other potential competitors across analytics implementation projects of varying sizes. Our ability to compete successfully in our markets depends on a number of factors, both within and outside of our control. Some of these factors include software deployment options; analytical, mobility, data discovery, and visualization capabilities; performance and scalability; the quality and reliability of our customer service and support; licensing model; and brand recognition. Failure to compete successfully in any one of these or other areas may reduce the demand for our offerings, as well as materially adversely affect our revenue from both existing and prospective customers.

Some of our competitors have longer operating histories and significantly greater financial, technical, and marketing resources than we do. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion, sale, and marketing of their offerings than we can, such as offering certain analytics products free of charge when bundled with other products. In addition, many of our competitors have strong relationships with current and potential customers, extensive industry and specialized business knowledge, as well as corresponding proprietary technologies that they can leverage, such as multidimensional databases and enterprise resource planning repositories. As a result, they may be able to prevent us from penetrating new accounts or expanding within existing accounts.

Increased competition may lead to price cuts, reduced gross margins, and loss of market share. We may not be able to compete successfully against current and future competitors, and the failure to meet the competitive pressures we face may have a material adverse effect on our business, operating results, and financial condition.

Current and future competitors may also make strategic acquisitions or establish cooperative relationships among themselves or with others. By doing so, these competitors may increase their ability to meet the needs of our potential customers by their expanded offerings and rapidly gain significant market share, which could limit our ability to obtain revenues from new customers and to sustain software maintenance revenues from our installed customer base. In addition, basic office productivity software suites, such as Microsoft Office, could evolve to offer advanced analysis and reporting capabilities that may reduce the demand for our analytics offerings.

We depend on revenue from a single software platform and related services as well as revenue from our installed customer base

Our revenue is derived from sales of our software platform and related services. Because of this revenue concentration, our business could be harmed by a decline in demand for, or in the adoption or prices of, our platform and related services as a result of, among other factors, any change in our pricing or packaging model, increased competition, maturation in the markets for our platform, or other risks described in this Quarterly Report.

We also depend on our installed customer base for a substantial portion of our revenue. If our existing customers cancel or fail to renew their service contracts or fail to make additional purchases from us, our revenue could decrease and our operating results could be materially adversely affected.

If we are unable to develop and release new offerings and software enhancements to respond to rapid technological change, new customer requirements, or evolving industry standards in a timely and cost-effective manner, our business, operating results, and financial condition could be materially adversely affected

The market for our offerings is characterized by frequent new offerings and software enhancements in response to rapid technological change, new customer requirements, and evolving industry standards. The introduction of offerings embodying new technologies can quickly make existing offerings obsolete and unmarketable. We believe our future success depends largely on our ability to (i) continue to support a number of popular operating systems and databases, (ii) maintain and improve our current offerings, (iii) rapidly develop new offerings and software enhancements that achieve market acceptance, (iv) maintain technological competitiveness, and (v) meet an expanding range of customer requirements.

Analytics applications are inherently complex, and it can take a long time and require significant research and development expenditures to develop and test new offerings and software enhancements. In addition, customers may delay their purchasing decisions because they anticipate that new or enhanced versions of our offerings will soon become available or because of concerns regarding the complexity of migration or performance issues that may occur in new offerings. We cannot be sure that we will succeed in developing, marketing, and delivering, on a timely and cost-effective basis, new or enhanced offerings that respond to technological change, new customer requirements, or evolving industry standards, nor can we be sure that any new or enhanced offerings will achieve market acceptance. Moreover, even if we introduce a new offering, we may experience a decline in revenues of our existing offerings that is not fully matched by the new offering’s revenue. This could result in a temporary or permanent revenue shortfall and materially adversely affect our business, operating results, and financial condition.

A substantial customer shift in the deployment of the MicroStrategy platform from a product license model to a cloud subscription model could affect the timing of revenue recognition, reduce product licenses and product support revenues, and materially adversely affect our operating results

We offer our analytics platform in the form of a product license or a cloud subscription. The payment streams and revenue recognition timing for our product licenses are different from those for our cloud subscriptions. For product licenses, customers typically pay us a lump sum soon after entering into a license agreement, and we typically recognize product licenses revenue when control of the license is transferred to the customer. For cloud subscriptions, customers typically make periodic payments over the subscription period and we recognize subscription services revenues ratably over the subscription period. As a result, if a substantial number of current customers shift to, or new customers purchase, cloud subscriptions instead of product licenses, the resulting change in payment terms and revenue recognition may result in our recognizing less revenue in the reporting period in which the sale transactions are consummated than has been the case in prior periods, with more revenue being recognized in future periods. This change in the timing of revenue recognition could materially adversely affect our operating results and cash flows for the periods during which such a shift or change in purchasing occurs. Accordingly, in any particular reporting period, cloud subscription sales could negatively impact product license sales to our existing and prospective customers, which could reduce product licenses and product support revenues.

Our financial results and the market price of our class A common stock may be affected by the price of bitcoin

In July 2020, we announced a capital allocation strategy, pursuant to which we intended to use capital in excess of working capital requirements to (i) return up to $250.0 million to our stockholders over a 12-month period and (ii) invest up to another $250.0 million during the same period in one or more alternative investments or assets, which may include stocks, bonds, commodities such as gold, digital assets such as bitcoin, or other asset types. In August 2020, our Board of Directors authorized the investment of up to $250.0 million in bitcoin. In September 2020, our Board of Directors adopted a new Treasury Reserve Policy that updated our treasury management and capital allocation strategies, under which our treasury reserve assets will consist of (i) Cash Assets held by us that exceed working capital requirements and (ii) bitcoin held by us, with bitcoin serving as the primary treasury reserve asset on an ongoing basis, subject to market conditions and anticipated needs of the business for Cash Assets. As part of these treasury management and capital allocation strategies, we purchased a total of approximately 38,250 bitcoins at an aggregate purchase price of

$425.0 million in the third quarter of 2020 for an average purchase price of approximately $11,111 per bitcoin. As a result of the Treasury Reserve Policy, in future periods, we may purchase additional bitcoins and increase our overall holdings of bitcoin or sell our bitcoins and decrease our overall holdings of bitcoin.

The price of bitcoin has historically been subject to dramatic price fluctuations and is highly volatile. Any decrease in the fair value of bitcoin below our carrying value for such assets at any time since their acquisition requires us to incur an impairment charge, and such charge could be material to our financial results for the applicable reporting period, which may create significant volatility in our reported earnings and decrease the carrying value of our digital assets. For example, in the third quarter of 2020, we incurred an impairment charge of approximately $44.2 million related to our bitcoin. Any decrease in reported earnings or increased volatility of such earnings due to impairment charges related to our bitcoin holdings could have a material adverse effect on the market price of our class A common stock. Any future changes in GAAP that require us to change the manner in which we account for our bitcoins could have a material adverse effect on our financial results and the market price of our class A common stock.

The likelihood of our investments in bitcoin significantly impacting our financial results and the market price of our class A common stock will increase if we increase our overall holdings of bitcoin in the future. In addition, if investors view the value of our class A common stock as dependent upon or linked to the value or change in the value of our bitcoin, the price of bitcoin may significantly influence the market price of our class A common stock.

The price of bitcoin may be influenced by regulatory, commercial, and technical factors that are highly uncertain

Bitcoin and other digital assets are relatively novel and are subject to various risks and uncertainties that may adversely impact their price. For example, the application of securities laws and other regulations to such assets is unclear in many respects, and it is possible that regulators in the United States or foreign countries may create new regulations or interpret laws in a manner that adversely affects the price of bitcoin. The growth of the digital assets industry in general, and the use and acceptance of bitcoin in particular, may also impact the price of bitcoin and is subject to a high degree of uncertainty. The pace of worldwide growth in the adoption and use of bitcoin may depend, for instance, on public familiarity with digital assets, ease of buying and accessing bitcoin, institutional demand for bitcoin as an investment asset, consumer demand for bitcoin as a means of payment, and the availability and popularity of alternatives to bitcoin. Even if growth in bitcoin adoption occurs in the near or medium-term, there is no assurance that bitcoin usage will continue to grow over the long-term. Because bitcoins have no physical existence beyond the record of transactions on the Bitcoin blockchain, a variety of technical factors related to the Bitcoin blockchain could also impact the price of bitcoin. For example, malicious attacks by “miners” who validate bitcoin transactions, inadequate mining fees to incentivize validating of bitcoin transactions, hard “forks” of the Bitcoin blockchain into multiple blockchains, and advances in quantum computing could undercut the integrity of the Bitcoin blockchain and negatively affect the price of bitcoin.

The concentration of our investments in bitcoin enhances the risks inherent in our bitcoin investments

As of September 30, 2020, we have invested a significant portion of our cash in bitcoin. As of such date, we held approximately 38,250 bitcoins with a carrying value of $380.8 million. The concentration of our investments in bitcoin limits the risk mitigation that we could take advantage of by investing in a more diversified portfolio of treasury assets, and the absence of diversification enhances the risks inherent in our bitcoin investments. If there is a significant decrease in the price of bitcoin, we may experience a more pronounced impact on our financial condition than if we invested our cash in a more diverse portfolio of treasury assets.

Our investments in bitcoin are less liquid than our existing cash and cash equivalents and may not be able to serve as a source of liquidity for us to the same extent as cash and cash equivalents

In September 2020, we adopted bitcoin as our primary treasury reserve asset. Historically, the Bitcoin market has been characterized by more price volatility, less liquidity, and lower trading volumes compared to sovereign currencies markets, as well as relative anonymity, a developing regulatory landscape, susceptibility to market abuse and manipulation, and various other risks inherent in its entirely electronic, virtual form and decentralized network. During times of market instability, we may not be able to sell our bitcoins at reasonable prices or at all. As a result, our bitcoins may not be able to serve as a source of liquidity for us to the same extent as cash and cash equivalents. If we are unable to sell our bitcoins, or if we are forced to sell our bitcoins at a significant loss, in order to meet our working capital requirements, our business and financial condition could be negatively impacted.

If we or our third-party service providers experience a security breach or cyberattack and unauthorized parties obtain access to our bitcoins, we may lose some or all of our bitcoins and our financial condition and results of operations could be materially adversely affected

Security breaches and cyberattacks are of particular concern with respect to our bitcoin. Bitcoin, as well as other blockchain-based cryptocurrencies, have been, and may in the future be, subject to security breaches, cyberattacks, or other malicious activities. While we hold all of our bitcoins, and expect to hold all of our bitcoins in the future, with established cryptocurrency custodians, a successful security breach or cyberattack could result in a partial or total loss of our bitcoins in a manner that may not be covered by insurance or indemnity provisions of our custody agreements with those custodians. Such a loss could have a material adverse effect on our financial condition and results of operations.

The loss or destruction of a private key required to access our bitcoin may be irreversible. If we are unable to access our private keys or if we experience a cyberattack or other data loss relating to our bitcoin, our financial condition and results of operations could be materially adversely affected.

Bitcoins are controllable only by the possessor of both the unique public key and private key relating to the local or online digital wallet in which the bitcoins are held. While the Bitcoin and blockchain ledger require a public key relating to a digital wallet to be published when used in a transaction, private keys must be safeguarded and kept private in order to prevent a third party from accessing the bitcoins held in such wallet. To the extent our private key is lost, destroyed, or otherwise compromised and no backup of the private key is accessible, we will be unable to access the bitcoins held in the related digital wallet. Furthermore, we cannot provide assurance that our digital wallets will not be compromised as a result of a cyberattack. The Bitcoin and blockchain ledger, as well as other cryptocurrencies and blockchain technologies, have been, and may in the future be, subject to security breaches, cyberattacks, or other malicious activities.

We may have exposure to greater than anticipated tax liabilities

We are subject to income taxes and non-income taxes in a variety of domestic and foreign jurisdictions. Our future income tax liability could be materially adversely affected by earnings that are lower than anticipated in jurisdictions where we have lower statutory rates, earnings that are higher than anticipated in jurisdictions where we have higher statutory rates, changes in the valuation of our deferred tax assets and liabilities, changes in the amount of unrecognized tax benefits, or changes in tax laws, regulations, accounting principles, or interpretations thereof (including in response to the COVID-19 pandemic).

Changes in the tax laws of foreign jurisdictions could arise, including as a result of the project undertaken by the Organisation for Economic Co-operation and Development (“OECD”) to combat base erosion and profit shifting (“BEPS”). The OECD, which represents a coalition of member countries, has issued recommendations that, in some cases, make substantial changes to numerous long-standing tax positions and principles. These changes, many of which have been adopted or are under active consideration by OECD members and/or other countries, could increase tax uncertainty and may adversely affect our provision for income taxes.

In addition, in response to significant market volatility and disruptions to business operations resulting from the COVID-19 pandemic, legislatures and taxing authorities in many jurisdictions in which we operate have implemented, and in the future may implement additional, changes to their tax rules. As part of the U.S. Congress’s response to the COVID-19 pandemic, the Families First Coronavirus Response Act (“FFCR Act”) was enacted on March 18, 2020, and the CARES Act was enacted on March 27, 2020. Both contain numerous tax provisions. Regulatory guidance under the Tax Act, FFCR Act, and CARES Act is and continues to be forthcoming, and such guidance could ultimately increase or lessen the impact of these laws on our business and financial condition. It is also likely that the U.S. Congress will enact additional legislation in connection with the COVID-19 pandemic, some of which could have tax provisions that impact us. In addition, it is uncertain if and to what extent various states will conform to the Tax Act, FFCR Act, or CARES Act. These changes in law could include modifications that have temporary effect or more permanent changes. The impact of these changes on us, our long-term tax planning, and our effective tax rate could be material.

Our determination of our tax liability is subject to review by applicable domestic and foreign tax authorities. Any adverse outcome of such reviews could have an adverse effect on our operating results and financial condition. The determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment and, in the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. Moreover, as a multinational business, we have subsidiaries that engage in many intercompany transactions in a variety of tax jurisdictions where the ultimate tax determination is uncertain.

We also have contingent tax liabilities that, in management's judgment, are not probable of assertion. If such unasserted contingent liabilities were to be asserted, or become probable of assertion, we may be required to record significant expenses and liabilities in the period in which these liabilities are asserted or become probable of assertion.

As a result of these and other factors, the ultimate amount of tax obligations owed may differ from the amounts recorded in our financial statements and any such difference may materially affect our financial results in future periods in which we change our estimates of our tax obligations or in which the ultimate tax outcome is determined.

Business disruptions, including interruptions, delays, or failures of our systems, third-party data center hosting facility, or other third-party services, could materially adversely affect our operating results or result in a material weakness in our internal controls that could adversely affect the market price of our stock

A significant portion of our research and development activities or certain other critical business operations are concentrated in facilities in Northern Virginia, China, and Poland. In addition, we serve our customers and manage certain critical internal processes using a third-party data center hosting facility located in the United States and other third-party services, including AWS, Azure, and other cloud services. We could experience a disruption or failure of our systems or the third-party hosting facility or other services that we use. Such disruptions or failures could include a natural disaster, fire, cyberattack, act of terrorism, geopolitical conflict, pandemic (including the ongoing COVID-19 pandemic), the effects of climate change, or other catastrophic event, as well as power outages, telecommunications infrastructure outages, a decision by one of our third-party service providers to close facilities that we use without adequate notice or to materially change the pricing or terms of their services, host country restrictions on the conduct of our business operations or the availability of our offerings, or other unanticipated problems with the third-party services that we use, including a failure to meet service standards.

These disruptions or failures could severely impact our ability to conduct normal business operations, impact our ability to attract new customers or maintain our existing customers, or result in a material weakness in our internal control over financial reporting, any of which could materially adversely affect our future operating results.

We use channel partners and if we are unable to maintain successful relationships with them, our business, operating results, and financial condition could be materially adversely affected

In addition to our direct sales force, we use channel partners, such as system integrators, consulting firms, resellers, solution providers, managed service providers, OEMs, and technology companies, to license and support our offerings. For the nine months ended September 30, 2020, transactions by channel partners for which we recognized revenue accounted for 21.1% of our total product licenses revenues, and our ability to achieve revenue growth in the future will depend in part on our ability to maintain these relationships. Our channel partners may offer customers the products and services of several different companies, including offerings that compete with ours, and we cannot be certain that they will prioritize or devote adequate resources to selling our offerings. If we are unable to maintain our relationships with our channel partners, or if we experience a reduction in sales by our channel partners, our business, operating results, and financial condition could be materially adversely affected.

In addition, we rely on our channel partners to operate in accordance with applicable laws and regulatory requirements. If they fail to do so, we may need to incur significant costs in responding to investigations or enforcement actions or paying penalties assessed by the applicable authorities. We also rely on our channel partners to operate in accordance with the terms of their contractual agreements with us. For example, some of our agreements with our channel partners prescribe the terms and conditions pursuant to which they are authorized to resell or distribute our software and offer technical support and related services. If our channel partners do not comply with their contractual obligations to us, our business, operating results, and financial condition may be materially adversely affected.

Our recognition of deferred revenue and advance payments is subject to future performance obligations and may not be representative of revenues for succeeding periods

Our current and non-current deferred revenue and advance payments totaled $172.5 million as of September 30, 2020. The timing and ultimate recognition of our deferred revenue and advance payments depend on various factors, including our performance of various service obligations.

Because of the possibility of customer changes or delays in customer development or implementation schedules or budgets, and the need for us to satisfactorily perform product support and other services, deferred revenue and advance payments at any particular date may not be representative of actual revenue for any succeeding period.

Our international operations are complex and expose us to risks that could have a material adverse effect on our business, operating results, and financial condition

We receive a significant portion of our total revenues from international sales and conduct our business activities in various foreign countries, including some emerging markets where we have limited experience, where the challenges of conducting our business can be significantly different from those we have faced in more developed markets, and where business practices may create internal control risks. International revenues accounted for 38.2% and 43.1% of our total revenues for the three months ended September 30, 2020 and 2019, respectively, and 41.0% and 43.2% of our total revenues for the nine months ended September 30, 2020 and 2019, respectively. Our international operations require significant management attention and financial resources.

Our international business activities expose us to additional risks, including:

- fluctuations in foreign currency exchange rates;
- new, or changes in, regulatory requirements;
- tariffs, export and import restrictions, restrictions on foreign investments, sanctions, laws and policies that favor local competitors (such as mandatory technology transfers), and other trade barriers or protection measures;
- the burden of complying with a wide variety of laws, including those relating to labor matters, antitrust, procurement and contracting, consumer and data protection, privacy, data localization, governmental access to data, network security, and encryption;
- costs of localizing offerings;
- lack of acceptance of localized offerings;
- difficulties in and costs of staffing, managing, and operating our international operations;
- economic weakness or currency-related crises;
- generally longer payment cycles and greater difficulty in collecting accounts receivable;
- tax issues, including restrictions on repatriating earnings;
- weaker intellectual property protection;
- increased risk of misappropriation, theft, or misuse of intellectual property, particularly in foreign countries where we have significant software development operations that have access to product source code, such as China;
- our ability to adapt to sales practices and customer requirements in different cultures;
- natural disasters, acts of war, terrorism, or pandemics (including the ongoing COVID-19 pandemic);
- corporate espionage; and
- political instability and security risks in the countries where we are doing business.

Disruptions to trade, weakening of economic conditions, economic and legal uncertainties, or changes in currency rates may adversely affect our business, financial condition, operating results, and cash flows. For example, we may face heightened risks in connection with our international operations as a result of the withdrawal of the United Kingdom from the European Union, commonly referred to as “Brexit.” The future effects of Brexit are uncertain and will depend on, among other things, the terms of any agreements the United Kingdom enters into governing U.K. access to E.U. and other markets either during the transitional period that is currently scheduled to end on December 31, 2020 or more permanently. Brexit could, among other outcomes, disrupt the free movement of goods, services, and people between the United Kingdom and the European Union. Brexit could also lead to legal uncertainty and potentially divergent national laws and regulations, including tax laws and regulations, as the United Kingdom determines which E.U. laws to replace or replicate. In addition, the Trump administration has called for substantial changes to U.S. foreign trade policy, including the imposition of greater restrictions on international trade and significant increases in tariffs on goods imported into the United States, and has increased tariffs on certain goods imported into the United States from a number of foreign markets, following which retaliatory tariffs have been imposed on exports of certain U.S. goods to those markets. These tariffs and any further escalation of protectionist trade measures could adversely affect the markets in which we sell our offerings and, in turn, our business, financial condition, operating results, and cash flows.

Changes to the U.S. taxation of our international income, or changes in foreign tax laws, could have a material effect on our future operating results. For example, the Tax Act brought about, among other items, corporate income tax rate changes, the modification or elimination of certain tax incentives, changes to the existing regime for taxing overseas earnings, and measures to prevent BEPS, and the United Kingdom adopted legislation imposing a tax related to offshore receipts in respect of intangible property held in low tax jurisdictions.

In addition, from time to time, we may undertake various potential intercompany transactions and legal entity restructurings that involve our international subsidiaries. We consider various factors in evaluating these potential transactions and restructurings, including the alignment of our corporate structure with our organizational objectives, the operational and tax efficiency of our corporate structure, and the long-term cash flows and cash needs of our business. Such transactions and restructurings could negatively impact our overall tax rate and result in additional tax liabilities.

Moreover, compliance with foreign and U.S. laws and regulations that are applicable to our international operations is complex and may increase our cost of doing business in international jurisdictions. Our failure to comply with these laws and regulations has exposed, and may in the future expose, us to fines and penalties. These laws and regulations include anti-bribery laws, such as the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, local laws prohibiting corrupt payments to government officials, and local laws relating to procurement, contracting, and antitrust. These laws and regulations also include import and export requirements and economic and trade sanctions administered by the Office of Foreign Assets Control and the U.S. Department of Commerce based on U.S. foreign policy and national security goals against targeted foreign states, organizations, and individuals. Although we have implemented policies and procedures designed to help ensure compliance with these laws, our employees, channel partners, and other persons with whom we do business may take actions in violation of our policies or these laws. For example, following an internal review initiated in 2018, we believe our Brazilian subsidiary failed or likely failed to comply with local procurement regulations in conducting business with certain Brazilian government entities. Any violations of these laws could subject us to civil or criminal penalties, including substantial fines or prohibitions on our ability to sell our offerings to one or more countries, and could also materially damage our reputation and our brand.

These factors may have a material adverse effect on our future sales and, consequently, on our business, operating results, and financial condition.

We may lose sales, or sales may be delayed, due to the long sales and implementation cycles of certain of our offerings, which could materially adversely affect our revenues and operating results

The decision to purchase our offerings typically requires our customers to invest substantial time, money, personnel, and other resources, which can result in long sales cycles that can exceed nine months from point of first contact to purchase order. These long sales cycles increase the risk that intervening events, such as the introduction of new offerings and changes in customer budgets and purchasing priorities, will affect the size, timing, and completion of an order. Even if an order is completed, the time and resources required to implement and integrate our offerings vary widely depending on customer needs and the complexity of deployment. If we lose sales or sales are delayed due to these long sales and implementation cycles, our revenues and operating results for that period may be materially adversely affected.

Our results in any particular period may depend on the number and volume of large transactions in that period and these transactions may involve lengthier, more complex, and more unpredictable sales cycles than other transactions

Larger, enterprise-level transactions often require considerably more resources, are often more complex to implement, and typically require additional management approval, which may result in a lengthier, more complex, and less predictable sales cycle and may increase the risk that an order is delayed or not brought to completion. We may also encounter greater competition and pricing pressure on these larger transactions, and our sales and delivery efforts may be more costly.

As existing and potential customers seek to standardize on a single analytics vendor or require greater vendor capacity to meet their growing analytics needs, these transactions may account for a greater proportion of our business. The presence or absence of one or more large transactions in a particular period may have a material positive or negative effect on our revenues and operating results for that period and may result in lower estimated revenues and earnings in future periods. For the nine months ended September 30, 2020, our top three product licenses transactions with recognized revenue totaled $14.7 million, or 25.8% of total product licenses revenues, compared to $5.4 million, or 9.4% of total product licenses revenues, for the nine months ended September 30, 2019.

We face a variety of risks in doing business with U.S. and foreign federal, state, and local governments and government agencies, including risks related to the procurement process, budget constraints and cycles, termination of contracts, and compliance with government contracting requirements

Our customers include the U.S. government and a number of state and local governments and government agencies. There are a variety of risks in doing business with government entities, including:

Procurement. Contracting with public sector customers is highly competitive and can be time-consuming and expensive, requiring us to incur significant up-front time and expense without any assurance that we will win a contract.

Budgetary Constraints and Cycles. Demand and payment for our offerings are impacted by public sector budgetary cycles and funding availability, with funding reductions or delays adversely impacting public sector demand for our offerings.

Termination of Contracts. Public sector customers often have contractual or other legal rights to terminate contracts for convenience or due to a default. If a contract is terminated for convenience, which can occur if the customer's needs change, we may only be able to collect fees for software or services delivered prior to termination and settlement expenses. If a contract is terminated due to a default, we may not recover even those amounts, and we may be liable for excess costs incurred by the customer for procuring alternative software or services.

Compliance with Government Contracting Requirements. Government contractors are required to comply with a variety of complex laws, regulations, and contractual provisions relating to the formation, administration, or performance of government contracts that give public sector customers substantial rights and remedies, many of which are not typically found in commercial contracts. These may include rights with respect to price protection, the accuracy of information provided to the government, contractor compliance with socio-economic policies, and other terms that are particular to government contracts. Federal, state, and local governments and government agencies routinely investigate and audit contractors for compliance with these requirements. If, as a result of an audit or review, it is determined that we have failed to comply with these requirements, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, fines, and suspensions or debarment from future government business and we may suffer harm to our reputation.

Our customers also include a number of foreign governments and government agencies. Similar procurement, budgetary, contract, and audit risks also apply to our doing business with these entities. In addition, compliance with complex regulations and contracting provisions in a variety of jurisdictions can be expensive and consume significant management resources. In certain jurisdictions, our ability to win business may be constrained by political and other factors unrelated to our competitive position in the market. Each of these difficulties could materially adversely affect our business and results of operations.

We depend on technology licensed to us by third parties, and the loss of this technology could impair our software, delay implementation of our offerings, or force us to pay higher license fees

We license third-party technologies that are incorporated into or utilized by our existing offerings. These licenses may be terminated, or we may be unable to license third-party technologies for future offerings. In addition, we may be unable to renegotiate acceptable third-party license terms, or we may be subject to infringement liability if third-party technologies that we license is found to infringe intellectual property rights of others. Changes in or the loss of third-party licenses could lead to a material increase in our costs or to our offerings becoming inoperable or their performance being materially reduced. As a result, we may need to incur additional development costs to help ensure continued performance of our offerings, and we may experience a decreased demand for our offerings.

If we are unable to recruit or retain skilled personnel, or if we lose the services of our Chairman of the Board of Directors & Chief Executive Officer, our business, operating results, and financial condition could be materially adversely affected

Our future success depends on our continuing ability to attract, train, assimilate, and retain highly skilled personnel. Competition for these employees is intense, and competition may be amplified by evolving restrictions on immigration, travel, or availability of visas for skilled technology workers, including restrictions imposed in response to the COVID-19 pandemic. We may not be able to retain our current key employees or attract, train, assimilate, and retain other highly skilled personnel in the future. Competition for qualified employees in the technology industry has historically been high, particularly for software engineers and other technical positions. Our future success also depends in large part on the continued service of Michael J. Saylor, our Chairman of the Board of Directors & Chief Executive Officer. If we lose the services of Mr. Saylor, or if we are unable to attract, train, assimilate, and retain the highly skilled personnel we need, our business, operating results, and financial condition could be materially adversely affected.

Changes in third-party software or systems or the emergence of new industry standards could materially adversely affect the operation of and demand for our existing software

The functionalities of our software depend in part on the ability of our software to interface with our customers' IT infrastructure and cloud environments, including software applications, network infrastructure, and end user devices, which are supplied to our customers by various other vendors. When new or updated versions of these third-party software or systems are introduced, or new industry standards in related fields emerge, we may be required to develop updated versions of or enhancements to our software to help ensure that it continues to effectively interoperate with our customers' IT infrastructure and cloud environments. If new or modified operating systems are introduced or new web standards and technologies or new standards in the field of database access technology emerge that are incompatible with our software, and we are unable to adapt our software on a timely basis, the ability of our software to deliver reports, access customer databases, or otherwise perform key functions could be impaired, which may impact our customers' satisfaction with our software and potentially result in breach of warranty claims or other claims. For example, the release of the Google Chrome version 80 browser and Microsoft's Windows security update enabling LDAP hardening affected some existing MicroStrategy software deployments, as a result of which we were required to make certain changes to our software. Development efforts to maintain the interoperability of our software with our customers' IT infrastructure and cloud environments could require substantial capital investment and employee resources, and we may not be able to update our software quickly, cost-effectively, or at all. If we are unable to update our software in a timely manner, demand for our software could be materially adversely affected.

The nature of our software makes it particularly susceptible to undetected errors, bugs, or security vulnerabilities, which could cause problems with how the software performs and, in turn, reduce demand for our software, reduce our revenue, and lead to litigation claims against us

Software as complex as ours may contain undetected errors, bugs, or security vulnerabilities. Although we test our software extensively, we have in the past discovered software errors, bugs, or security vulnerabilities in our offerings after their introduction. Despite testing by us and our current and potential customers, errors, bugs, or security vulnerabilities may be found in new offerings or releases after commercial shipments begin. This could result in lost revenue, damage to our reputation, or delays in market acceptance, which could have a material adverse effect on our business, operating results, and financial condition. We may also need to expend resources and capital to correct these defects if they occur.

Our agreements with customers typically contain provisions designed to limit our exposure to product liability, warranty, and other claims. It is possible, however, that these provisions may not be effective under the laws of certain domestic or international jurisdictions and we may be exposed to product liability, warranty, and other claims. A successful product liability claim against us could have a material adverse effect on our business, operating results, and financial condition.

Changes in laws or regulations relating to privacy or the collection, processing, disclosure, storage, localization, or transmission of personal data, or any actual or perceived failure by us or our third-party service providers to comply with such laws and regulations, contractual obligations, or applicable privacy policies, could materially adversely affect our business

Aspects of our business, including our digital identity offering and the cloud environments we manage, involve collecting, processing, disclosing, storing, and transmitting personal data, which are subject to certain privacy policies, contractual obligations, and U.S. federal, U.S. state, and foreign laws, regulations, and directives relating to privacy and data protection. We store a substantial amount of customer and employee data, including personal data, on our networks and other systems and the cloud environments we manage. In addition, the types of data subject to protection as personal data in the European Union, the United States, and elsewhere, including Asia and Latin America, have been expanding. In recent years, the collection and use of personal data by companies have come under increased regulatory and public scrutiny, especially in relation to the collection and processing of sensitive data, such as healthcare, biometric, genetic, financial services, and government data, children's data, precise location data, and data regarding a person's race or ethnic origins, political opinions, religious or philosophical beliefs, trade union membership, or sex life or sexual orientation. For example, in the United States, protected health information is subject to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"). HIPAA has been supplemented by the Health Information Technology for Economic and Clinical Health Act with the result of increased civil and criminal penalties for noncompliance. Entities performing certain functions that engage in creating, receiving, maintaining, or transmitting protected health information provided by covered entities and other business associates are directly subject to enforcement under HIPAA. Our access to protected health information through the cloud environments we manage triggers obligations to comply with certain privacy rules and data security requirements under HIPAA.

Any systems failure or security breach that results in the release of, or unauthorized access to, personal data, or any failure or perceived failure by us or our third-party service providers to comply with applicable privacy policies, contractual obligations, or any applicable laws or regulations relating to privacy or data protection, could result in proceedings against us by domestic or foreign government entities or others, including private plaintiffs in litigation. Such proceedings could result in the imposition of sanctions, fines, penalties, liabilities, government orders, and/or orders requiring that we change our data practices, any of which could have a material adverse effect on our business, operating results, reputation, and financial condition.

Various U.S. federal, U.S. state, and foreign legislative, regulatory, or other government bodies may enact new or additional laws or regulations, or issue rulings that invalidate prior laws or regulations, concerning privacy, data storage, data protection, and cross-border transfer of data that could materially adversely impact our business. In the European Union, the General Data Protection Regulation ("GDPR") took effect in May 2018. GDPR governs data practices and privacy, establishes requirements regarding the handling and security of personal data, requires disclosure of data breaches to individuals, customers, and data protection authorities in certain circumstances, requires companies to honor data subjects' requests relating to their personal data, permits regulators to impose fines of up to €20,000,000 or 4% of global annual revenue, whichever is higher, and establishes a private right of action. Furthermore, a new ePrivacy Regulation, regulating electronic communications, was proposed in 2017 and is under consideration by the European Commission, the European Parliament, and the European Council. More recently, in the European Union, the Court of Justice of the European Union ("CJEU") invalidated the U.S.-EU Privacy Shield in July 2020. The U.S.-EU Privacy Shield provided a mechanism to lawfully transfer personal data from the European Union to the United States and certain other countries. In the wake of the invalidation of the U.S.-EU Privacy Shield, we have transitioned to reliance on the EU Standard Contractual Clauses ("SCCs") to lawfully transfer certain personal data from the European Union to the United States. We are currently negotiating and implementing SCCs with our customers, partners, and vendors, which has increased costs and will require changes to our business practices. Although the CJEU upheld the validity of SCCs for the time being as a lawful data transfer mechanism, this transfer mechanism may also be declared invalid in the future, requiring us to provide an alternative means of data transfer, which may result in additional costs or require changes to certain business practices. For the time being, guidance from the CJEU and EU data protection authorities mandated that appropriate safeguards must be provided to protect the transferred data against third-party access. Implementing such safeguards could result in substantial costs, limit our ability to provide certain products in certain jurisdictions, or materially adversely affect our business and operating results.

Brazil also enacted the Lei Geral de Proteção de Dados (the Brazilian General Data Protection Law), which became effective in August 2020 and imposes requirements largely similar to GDPR on products and services offered to users in Brazil. We may also be subject in China to the Cybersecurity Law that went into effect in June 2017 and a revision of the Personal Information Security Specification that will become effective in October 2020, which have uncertain but broad application and imposes a number of new privacy and data security obligations, including a data localization requirement for certain types of data. China is also considering new legislation on the protection of privacy and personal data, including a Personal Information Protection Law and a Data Security Law that may impose new obligations on us. Other countries are considering new or expanded laws governing privacy and data security that may impact our business practices.

The state of California has also adopted a new comprehensive privacy law, the California Consumer Privacy Act ("CCPA"), which took effect in January 2020 and became enforceable in July 2020. We may be required to devote substantial resources to implement and maintain compliance with the CCPA, and noncompliance could carry the threat of regulatory investigations and fines or private litigation. In addition, several states are also considering bills similar to the CCPA or other generally applicable privacy laws that may impose additional costs and obligations on us. Moreover, a new proposed privacy law, the California Privacy Rights Act ("CPRA"), recently was certified by the California Secretary of State to appear on the ballot for the November 3, 2020 election. If this initiative is approved by California voters, the CPRA would significantly modify the CCPA, potentially resulting in further uncertainty and requiring us to incur additional costs and expenses.

Furthermore, the U.S. Congress is considering comprehensive privacy legislation, including legislation addressing data collected to address the COVID-19 pandemic. At this time, it is unclear whether Congress will in fact pass such a law and if so, when and what it will require and prohibit. Moreover, it is not clear whether any such legislation would give the Federal Trade Commission ("FTC") any new authority to impose civil penalties for violations of the Federal Trade Commission Act in the first instance, whether the U.S. Congress will grant the FTC rulemaking authority over privacy and information security, or whether the U.S. Congress will vest some or all privacy and data security regulatory authority and enforcement power in a new agency, akin to E.U. Data Protection Authorities.

Complying with these and other changing requirements could cause us or our customers to incur substantial costs or pay substantial fines or penalties, require us to change our business practices, require us to take on more onerous obligations in our contracts, or limit our ability to provide certain offerings in certain jurisdictions, any of which could materially adversely affect our business and operating results. New laws or regulations restricting or limiting the collection or use of mobile data could also reduce demand for certain of our offerings or require changes to our business practices, which could materially adversely affect our business and operating results.

If we or our third-party service providers experience a disruption due to a cybersecurity attack or security breach and unauthorized parties obtain access to our customers', prospects', vendors', or channel partners' data, our data, our networks or other systems, or the cloud environments we manage, our offerings may be perceived as not being secure, our reputation may be harmed, demand for our offerings may be reduced, our operations may be disrupted, we may incur significant legal and financial liabilities, and our business could be materially adversely affected

As part of our business, we process, store, and transmit our customers', prospects', vendors', and channel partners' information and data as well as our own, including in our networks and other systems and the cloud environments we manage. The security measures that we or our third-party service providers have implemented may not be effective against all current or future security threats. For example, security measures may be breached as a result of technological error, computer viruses, or third-party action, including intentional misconduct by computer hackers, physical break-ins, the actions of state actors, industrial espionage, fraudulent inducement of employees, customers, or channel partners to disclose sensitive information such as user names or passwords, and employee, customer, or channel partner error or malfeasance. We have experienced attempts by third parties to identify and exploit software and service vulnerabilities, penetrate or bypass our security measures, and gain unauthorized access to our or our customers' or service providers' cloud environments, networks, and other systems.

A security breach could result in unauthorized access to or disclosure, modification, misuse, loss, or destruction of our customers', prospects', vendors', or channel partners' data, our data (including our proprietary information, intellectual property, or trade secrets), our networks or other systems, or the cloud environments we manage. Because there are many different security breach techniques and such techniques continue to evolve, we may be unable to anticipate, detect, or mitigate attempted security breaches and implement adequate preventative measures. Third parties may also conduct attacks designed to prevent access to critical data or systems through ransomware or temporarily deny customers access to our cloud environments.

Any security breach, ransomware attack, or successful denial of service attack could result in a loss of customer confidence in the security of our offerings and damage to our brand, reduce the demand for our offerings, disrupt our normal business operations, require us to spend material resources to investigate or correct the breach, require us to notify affected customers or individuals and/or applicable regulators and others, and provide identity theft protection services to individuals under applicable laws, expose us to legal liabilities, including litigation, regulatory enforcement, and indemnity obligations, and materially adversely affect our revenues and operating results. Our software operates in conjunction with and is dependent on third-party products and components across a broad ecosystem. If there is a security vulnerability in one of these products or components, and if there is a security exploit targeting it, we could face increased costs, liability claims, customer dissatisfaction, reduced revenue, or harm to our reputation or competitive position.

These risks will increase as we continue to grow the number and scale of our cloud subscriptions and process, store, and transmit increasingly large amounts of our customers', prospects', vendors', channel partners', and our own information and data, which may include proprietary or confidential data or personal or other identifying information. In particular, in connection with the COVID-19 pandemic, there has been an increase in cyberattacks and other malicious activities as shelter-in-place orders and remote working conditions have led businesses to increase reliance on virtual environments and communication systems, which have been subjected to increasing third-party vulnerabilities and security risks. Moreover, if a high-profile security breach occurs with respect to an industry peer, our customers and potential customers may lose trust in the security of business intelligence or analytics platforms generally, which could adversely impact our ability to retain existing customers or attract new ones.

Our intellectual property is valuable, and any inability to protect it could reduce the value of our offerings and brand

We rely on a combination of copyrights, patents, trademarks, trade secrets, confidentiality procedures, and contractual commitments to protect our intellectual property worldwide. Despite our efforts, these measures can only provide limited protection. Unauthorized third parties may try to copy or reverse engineer portions of our software or otherwise obtain and use our intellectual property. Any intellectual property owned by us may be invalidated, circumvented, or challenged. Any of our pending or future intellectual property applications, whether or not currently being challenged, may not be issued with the scope we seek, if at all. Moreover, amendments to and developing jurisprudence regarding U.S. and international law may affect our ability to protect our intellectual property and defend against claims of infringement. In addition, although we generally enter into confidentiality agreements with our employees and contractors, the confidential nature of our intellectual property may not be maintained. Furthermore, the laws of some countries do not provide the same level of protection of our intellectual property as do the laws of the United States. If we cannot protect our intellectual property against unauthorized copying or use, we may not remain competitive.

Third parties may claim we infringe their intellectual property rights

We periodically receive notices from third parties claiming we are infringing their intellectual property rights, principally patent, copyright, and trademark rights. The number of such claims may increase as we continue to expand our offerings and branding, the number of offerings and level of competition in our industry segments grow, the functionality of offerings overlaps, and the volume of issued patents, patent applications, and copyright and trademark registrations continues to increase. Responding to any infringement claim, regardless of its validity, could:

- be time-consuming, costly, and/or result in litigation;
- divert management's time and attention from developing our business;
- require us to pay monetary damages or enter into royalty and licensing agreements that we would not normally find acceptable;
- require us to stop selling certain of our offerings;
- require us to redesign certain of our offerings using alternative non-infringing technology or practices, which could require significant effort and expense;
- require us to rename certain of our offerings or entities; or
- require us to satisfy indemnification obligations to our customers and channel partners.

Additionally, while we monitor our use of third-party software, including open source software, we cannot assure you that our processes for controlling such use in our offerings will be effective. If we fail to comply with the terms or conditions associated with third-party software that we use, including any changes to the license terms or conditions that may occur, if we inadvertently embed certain types of third-party software into one or more of our offerings, or if third-party software that we license is found to infringe the intellectual property rights of others, we could subject ourselves to infringement liability and be required to re-engineer our offerings, discontinue the sale of our offerings if re-engineering could not be accomplished on a timely or cost-effective basis, or make available to certain third parties or generally available, in source code form, our proprietary code, any of which could materially adversely affect our business, operating results, and financial condition.

If a successful infringement claim is made against us and we fail to develop or license a substitute technology or brand name, as applicable, our business, results of operations, financial condition, or cash flows could be materially adversely affected.

Because of the rights of our two classes of common stock and because we are controlled by Michael J. Saylor, who beneficially owns the majority of our class B common stock, Mr. Saylor could transfer control of MicroStrategy to a third party without the approval of our Board of Directors or our other stockholders, prevent a third party from acquiring us, or limit the ability of our other stockholders to influence corporate matters

We have two classes of common stock: class A common stock and class B common stock. Holders of our class A common stock generally have the same rights as holders of our class B common stock, except that holders of class A common stock have one vote per share while holders of class B common stock have ten votes per share. As of October 19, 2020, holders of our class B common stock owned 2,014,025 shares of class B common stock, or 73.5% of the total voting power. As of October 19, 2020, Mr. Saylor, our Chairman of the Board of Directors & Chief Executive Officer, beneficially owned 2,011,668 shares of class B common stock, or 73.4% of the total voting power. Accordingly, Mr. Saylor can control MicroStrategy through his ability to determine the outcome of elections of our directors, amend our certificate of incorporation and by-laws, and take other actions requiring the vote or consent of stockholders, including mergers, going-private transactions, and other extraordinary transactions and their terms.

Our certificate of incorporation allows holders of class B common stock to transfer shares of class B common stock, subject to the approval of stockholders holding a majority of the outstanding class B common stock. Mr. Saylor could, without the approval of our Board of Directors or our other stockholders, transfer voting control of MicroStrategy to a third party. Such a transfer of control could have a material adverse effect on our business, operating results, and financial condition. Mr. Saylor could also prevent a change of control of MicroStrategy, regardless of whether holders of class A common stock might otherwise receive a premium for their shares over the then current market price. In addition, this concentrated control limits stockholders' ability to influence corporate matters and, as a result, we may take actions that our non-controlling stockholders do not view as beneficial or that conflict with their interests. As a result, the market price of our class A common stock could be materially adversely affected.

Our status as a "controlled company" could make our class A common stock less attractive to some investors or otherwise materially adversely affect our stock price

Because we qualify as a "controlled company" under the corporate governance rules for Nasdaq-listed companies, we are not required to have independent directors comprise a majority of our Board of Directors. Additionally, our Board of Directors is not required to have an independent compensation or nominating committee, or to have the independent directors exercise the nominating function. We are also not required to have the compensation of our executive officers be determined by a compensation committee of independent directors. In addition, we are not required to empower our Compensation Committee with the authority to engage the services of any compensation consultants, legal counsel, or other advisors, or to have the Compensation Committee assess the independence of compensation consultants, legal counsel, and other advisors that it engages.

In light of our status as a controlled company, our Board of Directors has determined not to establish an independent nominating committee or have its independent directors exercise the nominating function and has elected instead to have the Board of Directors be directly responsible for nominating members of the Board. A majority of our Board of Directors is currently comprised of independent directors, and our Board of Directors has established a Compensation Committee comprised entirely of independent directors. The Compensation Committee determines the compensation of our Chief Executive Officer. However, our Board of Directors has authorized our Chief Executive Officer to determine the compensation of executive officers other than himself, rather than having such compensation determined by the Compensation Committee, except that certain performance-based executive officer compensation is determined by the Compensation Committee. Awards under our 2013 Equity Plan are also approved by the Compensation Committee. Additionally, while our Compensation Committee is empowered with the authority to retain and terminate outside counsel, compensation consultants, and other experts or consultants, it is not required to assess their independence.

Although currently a majority of our Board of Directors is comprised of independent directors and the Compensation Committee is comprised entirely of independent directors, we may elect in the future not to have independent directors constitute a majority of the Board of Directors or the Compensation Committee, our Chief Executive Officer's compensation determined by a compensation committee of independent directors, or a compensation committee of the Board of Directors at all.

Accordingly, should the interests of our controlling stockholder differ from those of other stockholders, the other stockholders may not have the same protections that are afforded to stockholders of companies that are required to follow all of the corporate governance rules for Nasdaq-listed companies. Our status as a controlled company could make our class A common stock less attractive to some investors or otherwise materially adversely affect our stock price.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about our repurchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act during the periods indicated:

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1) (2)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)
July 1, 2020 – July 31, 2020	0	N/A	0	$ 209,137,964
August 1, 2020 – August 31, 2020	0	N/A	0	$ 209,137,964
September 1, 2020 – September 30, 2020	432,313	$140.00 (2)	432,313	$ 209,137,964
Total:	432,313	$140.00 (2)	432,313	$ 209,137,964

(1) On July 28, 2005, we announced that the Board of Directors authorized us to repurchase up to an aggregate of $300.0 million of our class A common stock from time to time on the open market under the Share Repurchase Program. The Share Repurchase Program was subsequently amended to authorize us to repurchase up to an aggregate of $800.0 million of our class A common stock through April 29, 2023, although the program may be suspended or discontinued by us at any time. The timing and amount of any shares repurchased will be determined by management based on its evaluation of market conditions and other factors. The Share Repurchase Program may be funded using our working capital, as well as proceeds from any other funding arrangements that we may enter into in the future. During the three months ended September 30, 2020, we did not repurchase any shares of our class A common stock pursuant to the Share Repurchase Program. As of September 30, 2020, pursuant to the Share Repurchase Program, we had repurchased an aggregate of 5,674,226 shares of our class A common stock at an average price per share of $104.13 and an aggregate cost of $590.9 million. As of September 30, 2020, $209.1 million of our class A common stock remained available for repurchase pursuant to the Share Repurchase Program. The average price per share and aggregate cost amounts disclosed above include broker commissions.

(2) On August 11, 2020, we announced that we commenced the Offer to purchase up to $250.0 million in value of shares of our issued and outstanding class A common stock, or such lesser number of shares as are properly tendered and not properly withdrawn, at a price not greater than $140.00 nor less than $122.00 per share. The Offer expired at 5:00 p.m., New York City time, on September 10, 2020. During the three months ended September 30, 2020, we repurchased an aggregate of 432,313 shares of our class A common stock through the Offer at a price of $140.00 per share for an aggregate cost of $61.3 million, inclusive of $0.8 million in certain fees and expenses related to the Offer.

Item 5. Other Information

Earnings Release

On October 27, 2020, we issued a press release announcing the Company’s financial results for the quarter ended September 30, 2020. A copy of this press release is attached as Exhibit 99.1 to this Quarterly Report. The information regarding this press release in this Item 5 (including Exhibit 99.1) shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such a filing.

Item 6. Exhibits

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Second Restated Certificate of Incorporation of the registrant (incorporated herein by reference to Exhibit 3.1 to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2003 (File No. 000-24435)).
3.2	Amended and Restated By-Laws of the registrant (incorporated herein by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed with the SEC on January 30, 2015 (File No. 000-24435)).
4.1	Form of Certificate of Class A Common Stock of the registrant (incorporated herein by reference to Exhibit 4.1 to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2003 (File No. 000-24435)).
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Chairman of the Board of Directors & Chief Executive Officer.
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the President & Chief Financial Officer.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Press release, dated October 27, 2020, regarding the Company's financial results for the quarter ended September 30, 2020.
101.INS	Inline XBRL Instance Document. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase.
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MICROSTRATEGY INCORPORATED

By: /s/ Phong Le
Phong Le
President & Chief Financial Officer

By: /s/ Jeanine Montgomery
Jeanine Montgomery
Senior Vice President & Chief Accounting Officer

Date: October 27, 2020

Exhibit 31.1

CERTIFICATION

I, Michael J. Saylor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MicroStrategy Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 27, 2020

/s/ Michael J. Saylor
Michael J. Saylor
Chairman of the Board of Directors & Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Phong Le, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MicroStrategy Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 27, 2020

/s/ Phong Le
Phong Le
President & Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of MicroStrategy Incorporated (the "Company") for the quarter ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Chief Executive Officer of the Company and the Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge on the date hereof:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 27, 2020

/s/ Michael J. Saylor
Michael J. Saylor
Chairman of the Board of Directors & Chief Executive Officer

Dated: October 27, 2020

/s/ Phong Le
Phong Le
President & Chief Financial Officer

Contact:
MicroStrategy Incorporated
Investor Relations
ir@microstrategy.com
(703) 848-8600

MicroStrategy Announces Third Quarter 2020 Financial Results

TYSONS CORNER, Va., October 27, 2020 - MicroStrategy® (Nasdaq: MSTR), the largest independent publicly-traded business intelligence company, today announced financial results for the three-month period ended September 30, 2020 (the third quarter of its 2020 fiscal year).

"MicroStrategy delivered one of its stronger quarters in years, with meaningful growth in both product licenses and deferred subscription services revenues and a significant improvement in non-GAAP operating margin. We believe our performance demonstrates growing customer demand for scalable, flexible enterprise-grade solutions that enable better business performance through data-driven decisions," said Michael J. Saylor, CEO, MicroStrategy Incorporated.

"Our recent decision to make bitcoin our primary treasury reserve asset is the latest example of MicroStrategy's embrace of virtual technologies. The purchase of $425 million of bitcoin during the quarter offers the possibility of greater return potential for investors than holding such balances in cash and has increased the overall visibility of MicroStrategy in the market. We believe our proactive management of our balance sheet, together with our improved revenue and profitability performance, can serve as catalysts to generate substantial long-term value for our shareholders," continued Mr. Saylor.

Third Quarter 2020 Financial Highlights

- **Revenues:** Total revenues for the third quarter of 2020 were $127.4 million, a 6.4% increase, or a 5.9% increase on a non-GAAP constant currency basis, compared to the third quarter of 2019. Product licenses and subscription services revenues for the third quarter of 2020 were $37.9 million, a 41.0% increase, or a 41.9% increase on a non-GAAP constant currency basis, compared to the third quarter of 2019. Product support revenues for the third quarter of 2020 were $71.4 million, a 2.1% decrease, or a 3.0% decrease on a non-GAAP constant currency basis, compared to the third quarter of 2019. Other services revenues for the third quarter of 2020 were $18.2 million, an 8.8% decrease, or a 10.2% decrease on a non-GAAP constant currency basis, compared to the third quarter of 2019.

- **Gross Profit:** Gross profit for the third quarter of 2020 was $105.7 million, representing an 82.9% gross margin, compared to a gross margin of 80.1% in the third quarter of 2019.

- **Operating Expenses:** Operating expenses for the third quarter of 2020 were $125.9 million, a 38.0% increase compared to the third quarter of 2019. Beginning in the third quarter of 2020, operating expenses include impairment losses on our digital assets, which were $44.2 million during the third quarter of 2020.

- **(Loss) Income from Operations:** Loss from operations for the third quarter of 2020 was $20.3 million versus income from operations of $4.6 million for the third quarter of 2019. Non-GAAP income from operations, which excludes share-based compensation expense and impairment losses and gains on sale from intangible assets, which include digital assets, was $26.5 million for the third quarter of 2020 versus $6.4 million for the third quarter of 2019.

- **Net (Loss) Income:** Net loss for the third quarter of 2020 was $14.2 million, or $1.48 per share on a diluted basis, as compared to net income of $9.7 million, or $0.94 per share on a diluted basis, for the third quarter of 2019. Non-GAAP net income, which excludes share-based compensation expense and impairment losses and gains on sale from intangible assets, which include digital assets, was $19.8 million, or $2.06 per share on a non-GAAP diluted basis, for the third quarter of 2020, as compared to non-GAAP net income of $11.6 million, or $1.13 per share on a non-GAAP diluted basis, for the third quarter of 2019.

- **Cash and Short-term Investments:** As of September 30, 2020, MicroStrategy had cash and cash equivalents and short-term investments of $52.7 million, as compared to $565.6 million as of December 31, 2019, a decrease of $513.0 million.

- **Digital Assets:** As of September 30, 2020, the carrying value of MicroStrategy's digital assets (comprised solely of bitcoin) was $380.8 million, which reflects cumulative impairments of $44.2 million since acquisition. MicroStrategy accounts for its digital assets as indefinite-lived intangible assets, which are initially recorded at cost. Subsequently, they are measured at cost, net of any impairment losses incurred since acquisition. MicroStrategy determines the fair value of its bitcoin based on quoted (unadjusted) prices on the active exchange that MicroStrategy has determined is its principal market for bitcoin. MicroStrategy considers the lowest price of one bitcoin quoted on the active exchange at any time since acquiring the specific bitcoin. If the carrying value of a bitcoin exceeds that lowest price, an impairment loss has occurred with respect to that bitcoin in the amount equal to the difference between its carrying value and such lowest price. Impairment losses are recognized as "Digital asset impairment losses" in MicroStrategy's Consolidated Statements of Operations. As of September 30, 2020, the average cost and average carrying value of MicroStrategy's bitcoin were approximately $11,111 and $9,954, respectively. As of October 26, 2020, at 4:00 p.m. EDT, MicroStrategy had 38,250 bitcoins and the market price of one bitcoin in the principal market was approximately $13,023.

The tables at the end of this press release include a reconciliation of GAAP to non-GAAP financial measures for the three and nine months ended September 30, 2020 and 2019. An explanation of non-GAAP financial measures is also included under the heading "Non-GAAP Financial Measures" below. Additional non-GAAP financial measures are included in our "3Q 2020 Earnings Presentation" presentation, which will be available under the "Events" section on MicroStrategy's investor relations website at https://ir.microstrategy.com/events-presentations.

MicroStrategy uses its Intelligent Enterprise™ platform across the enterprise and has created an interactive dossier with quarterly financial performance data. Anyone can access the MSTR Financials dossier via a web browser, or by downloading the MicroStrategy Library™ app on an iOS or Android device. To download the native apps, visit MicroStrategy Library for iPad, MicroStrategy Library for iPhone, or MicroStrategy Library for Android tablet and smartphone.

Non-GAAP Financial Measures

MicroStrategy is providing supplemental financial measures for (i) non-GAAP income (loss) from operations that excludes the impact of share-based compensation expense and impairment losses and gains on sale from intangible assets, which include its digital assets, (ii) non-GAAP net income and non-GAAP diluted earnings per share that exclude the impact of share-based compensation expense and impairment losses and gains on sale from intangible assets, which include its digital assets and the sale of its Voice.com domain name in the second quarter of 2019 (the "Domain Name Sale"), and (iii) non-GAAP constant currency revenues that exclude foreign currency exchange rate fluctuations. These supplemental financial measures are not measurements of financial performance under generally accepted accounting principles in the United States ("GAAP") and, as a result, these supplemental financial measures may not be comparable to similarly titled measures of other companies. Management uses these non-GAAP financial measures internally to help understand, manage, and evaluate business performance and to help make operating decisions.

MicroStrategy believes that these non-GAAP financial measures are also useful to investors and analysts in comparing its performance across reporting periods on a consistent basis. The first supplemental financial measure excludes (i) a significant non-cash expense that MicroStrategy believes is not reflective of its general business performance, and for which the accounting requires management judgment and the resulting share-based compensation expense could vary significantly in comparison to other companies and (ii) significant impairment losses and gains on sale from intangible assets, which include MicroStrategy's bitcoin. The second set of supplemental financial measures excludes the impact of (i) share-based compensation expense and (ii) impairment losses and gains on sale from intangible assets, which include MicroStrategy's bitcoin and the Domain Name Sale, which was outside of MicroStrategy's normal business operations. The third set of supplemental financial measures excludes changes resulting from fluctuations in foreign currency exchange rates so that results may be compared to the same period in the prior year on a non-GAAP constant currency basis. MicroStrategy believes the use of these non-GAAP financial measures can also facilitate comparison of MicroStrategy's operating results to those of its competitors.

Treasury Management Strategy and Bitcoin Acquisitions

In July 2020, MicroStrategy announced a capital allocation strategy pursuant to which it intended to use capital in excess of working capital requirements to (i) return up to $250.0 million to its stockholders over a 12-month period and (ii) invest up to another $250.0 million during the same period in one or more alternative investments or assets, which may include stocks, bonds, commodities such as gold, digital assets such as bitcoin, or other asset types. In August 2020, MicroStrategy's Board of Directors authorized the investment of up to $250.0 million in bitcoin. In September 2020, MicroStrategy's Board of Directors adopted a new Treasury Reserve Policy that updated MicroStrategy's treasury management and capital allocation strategies, under which its treasury reserve assets will consist of (i) cash and cash equivalents and short-term investments ("Cash Assets") held by MicroStrategy that exceed working capital requirements and (ii) bitcoin held by MicroStrategy, with bitcoin serving as the primary treasury reserve asset on an ongoing basis, subject to market conditions and anticipated needs of the business for Cash Assets. As part of these treasury management and capital allocation strategies, MicroStrategy purchased a total of approximately 38,250 bitcoins at an aggregate purchase price of $425.0 million in the third quarter of 2020 for an average purchase price of approximately $11,111 per bitcoin. As a result of the Treasury Reserve Policy, in future periods, MicroStrategy may purchase additional bitcoins and increase its overall holdings of bitcoin or sell its bitcoins and decrease its overall holdings of bitcoin.

Tender Offer

In August 2020, MicroStrategy announced that it commenced a "modified Dutch Auction" tender offer (the "Offer") to purchase up to $250.0 million in value of shares of its issued and outstanding class A common stock, or such lesser number of shares as are properly tendered and not properly withdrawn, at a price not greater than $140.00 nor less than $122.00 per share. The Offer expired at 5:00 p.m., New York City time, on September 10, 2020. During the third quarter of 2020, MicroStrategy repurchased an aggregate of 432,313 shares of its class A common stock through the Offer at a price of $140.00 per share for an aggregate cost of $61.3 million, inclusive of $0.8 million in certain fees and expenses related to the Offer. As of September 30, 2020, MicroStrategy had 7.3 million shares of class A common stock and 2.0 million shares of class B common stock outstanding.

Conference Call

MicroStrategy will be discussing its third quarter 2020 financial results on a conference call today beginning at approximately 5:00 p.m. EDT. To access the conference call, dial (844) 824-7425 (domestically) or (716) 220-9429 (internationally) and use conference ID 4698795. A live and archived webcast and accompanying presentation materials will be available under the "Events" section on MicroStrategy's investor relations website at https://ir.microstrategy.com/events-presentations. A replay of the conference call will be available beginning approximately two hours after the call concludes until November 3, 2020 at (855) 859-2056 (domestically) or (404) 537-3406 (internationally) using the passcode 4698795.

About MicroStrategy Incorporated

MicroStrategy (Nasdaq: MSTR) is the largest independent publicly-traded business intelligence company, with the leading enterprise analytics platform. Our vision is to enable Intelligence Everywhere™. MicroStrategy provides modern analytics on an open, comprehensive enterprise platform used by many of the world's most admired brands in the Fortune Global 500. Optimized for cloud and on-premises deployments, the platform features HyperIntelligence®, a breakthrough technology that overlays actionable enterprise data on popular business applications to help users make smarter, faster decisions. For more information about MicroStrategy, visit www.microstrategy.com.

MicroStrategy, Intelligent Enterprise, MicroStrategy Library, Intelligence Everywhere, HyperIntelligence, and MicroStrategy 2020 are either trademarks or registered trademarks of MicroStrategy Incorporated in the United

States and certain other countries. Other product and company names mentioned herein may be the trademarks of their respective owners.

This press release may include statements that may constitute “forward-looking statements,” including estimates of future business prospects or financial results and statements containing the words “believe,” “estimate,” “project,” “expect” or similar expressions. Forward-looking statements inherently involve risks and uncertainties that could cause actual results of MicroStrategy Incorporated and its subsidiaries (collectively, the “Company”) to differ materially from the forward-looking statements. Factors that could contribute to such differences include: the extent and timing of market acceptance of MicroStrategy’s new offerings, including MicroStrategy 2020™; impacts of the COVID-19 pandemic; the Company’s ability to recognize revenue or deferred revenue through delivery of products or satisfactory performance of services; continued acceptance of the Company’s other products in the marketplace; changes in the value of the Company’s bitcoin and impairment losses that may be associated therewith; fluctuations in tax benefits or provisions; the timing of significant orders; delays in or the inability of the Company to develop or ship new products; customers shifting from a product license model to a cloud subscription model; competitive factors; general economic conditions; currency fluctuations; and other risks detailed in MicroStrategy’s registration statements and periodic reports filed with the Securities and Exchange Commission. The Company undertakes no obligation to update these forward-looking statements for revisions or changes after the date of this release.

MSTR-F

MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues				
Product licenses	$ 29,573	$ 18,972	$ 56,973	$ 57,384
Subscription services	8,305	7,894	24,294	22,142
Total product licenses and subscription services	37,878	26,866	81,267	79,526
Product support	71,352	72,885	212,548	217,313
Other services	18,178	19,942	55,601	55,957
Total revenues	**127,408**	**119,693**	**349,416**	**352,796**
Cost of revenues				
Product licenses	545	526	1,729	1,597
Subscription services	3,656	3,889	11,512	10,976
Total product licenses and subscription services	4,201	4,415	13,241	12,573
Product support	5,679	6,922	19,234	21,710
Other services	11,856	12,478	37,795	41,055
Total cost of revenues	**21,736**	**23,815**	**70,270**	**75,338**
Gross profit	**105,672**	**95,878**	**279,146**	**277,458**
Operating expenses				
Sales and marketing	35,330	43,935	109,799	140,968
Research and development	26,638	27,457	78,606	83,436
General and administrative	19,733	19,900	60,514	63,684
Digital asset impairment losses	44,242	0	44,242	0
Total operating expenses	**125,943**	**91,292**	**293,161**	**288,088**
(Loss) income from operations	**(20,271)**	**4,586**	**(14,015)**	**(10,630)**
Interest income, net	209	2,941	2,627	8,520
Other (expense) income, net	(2,971)	1,882	(4,532)	30,717
(Loss) income before income taxes	**(23,033)**	**9,409**	**(15,920)**	**28,607**
(Benefit from) provision for income taxes	(8,804)	(291)	(5,735)	6,419
Net (loss) income	**$ (14,229)**	**$ 9,700**	**$ (10,185)**	**$ 22,188**
Basic (loss) earnings per share (1):	**$ (1.48)**	**$ 0.95**	**$ (1.04)**	**$ 2.16**
Weighted average shares outstanding used in computing basic (loss) earnings per share	**9,616**	**10,251**	**9,777**	**10,273**
Diluted (loss) earnings per share (1):	**$ (1.48)**	**$ 0.94**	**$ (1.04)**	**$ 2.15**
Weighted average shares outstanding used in computing diluted (loss) earnings per share	**9,616**	**10,309**	**9,777**	**10,336**

(1) Basic and fully diluted (loss) earnings per share for class A and class B common stock are the same.

MICROSTRATEGY INCORPORATED
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	September 30, 2020 (unaudited)	December 31, 2019*
Assets		
Current assets		
Cash and cash equivalents	$ 52,653	$ 456,727
Restricted cash	1,231	1,089
Short-term investments	0	108,919
Accounts receivable, net	148,512	163,516
Prepaid expenses and other current assets	16,040	23,195
Total current assets	218,436	753,446
Digital assets	380,758	0
Property and equipment, net	45,473	50,154
Right-of-use assets	79,296	85,538
Deposits and other assets	15,405	8,024
Deferred tax assets, net	33,537	19,409
Total Assets	**$ 772,905**	**$ 916,571**
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable, accrued expenses, and operating lease liabilities	$ 38,668	$ 33,919
Accrued compensation and employee benefits	44,177	48,792
Deferred revenue and advance payments	160,845	187,107
Total current liabilities	243,690	269,818
Deferred revenue and advance payments	11,657	4,344
Operating lease liabilities	95,591	103,424
Other long-term liabilities	32,651	30,400
Deferred tax liabilities	24	26
Total Liabilities	**383,613**	**408,012**
Stockholders' Equity		
Preferred stock undesignated, $0.001 par value; 5,000 shares authorized; no shares issued or outstanding	0	0
Class A common stock, $0.001 par value; 330,000 shares authorized; 15,937 shares issued and 7,253 shares outstanding, and 15,888 shares issued and 8,081 shares outstanding, respectively	16	16
Class B convertible common stock, $0.001 par value; 165,000 shares authorized; 2,014 shares issued and outstanding, and 2,035 shares issued and outstanding, respectively	2	2
Additional paid-in capital	604,974	593,583
Treasury stock, at cost; 8,684 shares and 7,807 shares, respectively	(782,104)	(658,880)
Accumulated other comprehensive loss	(6,900)	(9,651)
Retained earnings	573,304	583,489
Total Stockholders' Equity	**389,292**	**508,559**
Total Liabilities and Stockholders' Equity	**$ 772,905**	**$ 916,571**

* Derived from audited financial statements.

MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine Months Ended September 30, 2020 (unaudited)	Nine Months Ended September 30, 2019 (unaudited)
Operating activities:		
Net (loss) income	$ (10,185)	$ 22,188
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	9,342	5,456
Reduction in carrying amount of right-of-use assets	6,134	6,087
Credit losses and sales allowances	1,874	892
Net realized (gain) loss on short-term investments	(94)	41
Deferred taxes	(13,341)	(3,352)
Release of liabilities for unrecognized tax benefits	0	(1,077)
Share-based compensation expense	7,897	7,887
Digital asset impairment losses	44,242	0
Changes in operating assets and liabilities:		
Accounts receivable	6,439	11,781
Prepaid expenses and other current assets	391	4,513
Deposits and other assets	(175)	349
Accounts payable and accrued expenses	902	(11,618)
Accrued compensation and employee benefits	(7,221)	(7,368)
Deferred revenue and advance payments	(12,385)	23,612
Operating lease liabilities	(7,148)	(6,394)
Other long-term liabilities	1,625	(674)
Net cash provided by operating activities	28,297	52,323
Investing activities:		
Purchases of digital assets	(425,000)	0
Proceeds from redemption of short-term investments	119,886	589,357
Purchases of property and equipment	(1,162)	(9,382)
Purchases of short-term investments	(9,928)	(320,487)
Net cash (used in) provided by investing activities	(316,204)	259,488
Financing activities:		
Proceeds from sale of class A common stock under exercise of employee stock options	3,616	5,442
Purchases of treasury stock	(122,480)	(48,244)
Net cash used in financing activities	(118,864)	(42,802)
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	2,839	(3,926)
Net (decrease) increase in cash, cash equivalents, and restricted cash	(403,932)	265,083
Cash, cash equivalents, and restricted cash, beginning of period	457,816	110,786
Cash, cash equivalents, and restricted cash, end of period	$ 53,884	$ 375,869

MICROSTRATEGY INCORPORATED
REVENUE AND COST OF REVENUE DETAIL
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues				
Product licenses and subscription services:				
Product licenses	$ 29,573	$ 18,972	$ 56,973	$ 57,384
Subscription services	8,305	7,894	24,294	22,142
Total product licenses and subscription services	37,878	26,866	81,267	79,526
Product support	71,352	72,885	212,548	217,313
Other services:				
Consulting	16,954	18,038	51,973	50,135
Education	1,224	1,904	3,628	5,822
Total other services	18,178	19,942	55,601	55,957
Total revenues	**127,408**	**119,693**	**349,416**	**352,796**
Cost of revenues				
Product licenses and subscription services:				
Product licenses	545	526	1,729	1,597
Subscription services	3,656	3,889	11,512	10,976
Total product licenses and subscription services	4,201	4,415	13,241	12,573
Product support	5,679	6,922	19,234	21,710
Other services:				
Consulting	10,331	11,102	31,927	35,996
Education	1,525	1,376	5,868	5,059
Total other services	11,856	12,478	37,795	41,055
Total cost of revenues	**21,736**	**23,815**	**70,270**	**75,338**
Gross profit	**$ 105,672**	**$ 95,878**	**$ 279,146**	**$ 277,458**

MICROSTRATEGY INCORPORATED
RECONCILIATION OF GAAP TO NON-GAAP MEASURES
INCOME (LOSS) FROM OPERATIONS
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of non-GAAP income (loss) from operations:				
(Loss) income from operations	$ (20,271)	$ 4,586	$ (14,015)	$ (10,630)
Share-based compensation expense	2,560	1,834	7,897	7,887
Digital asset impairment losses	44,242	0	44,242	0
Non-GAAP income (loss) from operations	$ 26,531	$ 6,420	$ 38,124	$ (2,743)

MICROSTRATEGY INCORPORATED
RECONCILIATION OF GAAP TO NON-GAAP MEASURES
NET INCOME AND EARNINGS PER SHARE
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of non-GAAP net income:				
Net (loss) income	$ (14,229)	$ 9,700	$ (10,185)	$ 22,188
Share-based compensation expense, net of tax	2,608	1,932	8,381	$ 7,428
Digital asset impairment losses, net of tax	31,465	0	31,465	0
Gain from Domain Name Sale, net of tax	0	0	0	(21,778)
Non-GAAP net income	$ 19,844	$ 11,632	$ 29,661	$ 7,838
Reconciliation of non-GAAP diluted earnings per share:				
Diluted (loss) earnings per share	$ (1.48)	$ 0.94	$ (1.04)	$ 2.15
Share-based compensation expense, net of tax (per diluted share)	0.27	0.19	0.85	0.72
Digital asset impairment losses, net of tax (per diluted share)	3.27	0.00	3.22	0.00
Gain from Domain Name Sale, net of tax (per diluted share)	0.00	0.00	0.00	(2.11)
Non-GAAP diluted earnings per share	$ 2.06	$ 1.13	$ 3.03	$ 0.76

MICROSTRATEGY INCORPORATED
RECONCILIATION OF GAAP TO NON-GAAP MEASURES
CONSTANT CURRENCY
(in thousands)

	Three Months Ended September 30, (unaudited)					
	GAAP	Foreign Currency Exchange Rate Impact (1)	Non-GAAP Constant Currency (2)	GAAP	GAAP % Change	Non-GAAP Constant Currency % Change (3)
	2020	2020	2020	2019	2020	2020
Revenues						
Product licenses	$ 29,573	$ (341)	$ 29,914	$ 18,972	55.9%	57.7%
Subscription services	8,305	91	8,214	7,894	5.2%	4.1%
Total product licenses and subscription services	37,878	(250)	38,128	26,866	41.0%	41.9%
Product support	71,352	670	70,682	72,885	-2.1%	-3.0%
Other services	18,178	269	17,909	19,942	-8.8%	-10.2%
Total revenues	127,408	689	126,719	119,693	6.4%	5.9%

	Nine Months Ended September 30, (unaudited)					
	GAAP	Foreign Currency Exchange Rate Impact (1)	Non-GAAP Constant Currency (2)	GAAP	GAAP % Change	Non-GAAP Constant Currency % Change (3)
	2020	2020	2020	2019	2020	2020
Revenues						
Product licenses	$ 56,973	$ (1,537)	$ 58,510	$ 57,384	-0.7%	2.0%
Subscription services	24,294	9	24,285	22,142	9.7%	9.7%
Total product licenses and subscription services	81,267	(1,528)	82,795	79,526	2.2%	4.1%
Product support	212,548	(1,671)	214,219	217,313	-2.2%	-1.4%
Other services	55,601	(229)	55,830	55,957	-0.6%	-0.2%
Total revenues	349,416	(3,428)	352,844	352,796	-1.0%	0.0%

(1) The "Foreign Currency Exchange Rate Impact" reflects the estimated impact of fluctuations in foreign currency exchange rates on international revenues. It shows the increase (decrease) in international revenues from the same period in the prior year, based on comparisons to the prior year quarterly average foreign currency exchange rates. The term "international" refers to operations outside of the United States and Canada.

(2) The "Non-GAAP Constant Currency" reflects the current period GAAP amount, less the Foreign Currency Exchange Rate Impact.

(3) The "Non-GAAP Constant Currency % Change" reflects the percentage change between the current period Non-GAAP Constant Currency amount and the GAAP amount for the same period in the prior year.

MICROSTRATEGY INCORPORATED
DEFERRED REVENUE DETAIL
(in thousands)

	September 30, 2020 (unaudited)	December 31, 2019*	September 30, 2019 (unaudited)
Current:			
Deferred product licenses revenue	$ 186	$ 481	$ 470
Deferred subscription services revenue	19,535	16,561	12,812
Deferred product support revenue	134,632	161,670	139,402
Deferred other services revenue	6,492	8,395	7,560
Total current deferred revenue and advance payments	$ 160,845	$ 187,107	$ 160,244
Non-current:			
Deferred product licenses revenue	$ 140	$ 293	$ 368
Deferred subscription services revenue	5,988	97	142
Deferred product support revenue	4,759	3,417	3,440
Deferred other services revenue	770	537	537
Total non-current deferred revenue and advance payments	$ 11,657	$ 4,344	$ 4,487
Total current and non-current:			
Deferred product licenses revenue	$ 326	$ 774	$ 838
Deferred subscription services revenue	25,523	16,658	12,954
Deferred product support revenue	139,391	165,087	142,842
Deferred other services revenue	7,262	8,932	8,097
Total current and non-current deferred revenue and advance payments	$ 172,502	$ 191,451	$ 164,731

* Derived from audited financial statements.

MICROSTRATEGY INCORPORATED
WORLDWIDE EMPLOYEE HEADCOUNT

	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Subscription services	54	64	63	69	66
Product support	165	189	204	219	231
Consulting	397	421	425	392	390
Education	38	43	42	38	38
Sales and marketing	495	573	594	597	616
Research and development	666	684	721	743	775
General and administrative	258	285	314	338	337
Total headcount	2,073	2,259	2,363	2,396	2,453